



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

Annual Report
and
Independent Auditor's Report
for the year 2022

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

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**REPORT OF THE MANAGEMENT BOARD ACCOMPANYING AUDITED FINANCIAL
STATEMENTS FOR THE PERIOD 1 January – 31 December 2022**

Business environment

Various influences and trends marked the business environment in 2022. The most important ones were published by CNB in December 2022 and are quoted below.

„The grimmer global economic outlook and pronounced inflationary pressures that prompted the worldwide rapid, sharp tightening of central banks’ monetary policies and the worsening of financing conditions have increasingly started to affect the Croatian economy. Negative external shocks have so far had more of an impact on the manufacturing sector, which is more sensitive to high energy costs and more exposed to difficulties in global supply chains, while in the services sector the difficulties have been surmounted owing to buoyant demand after the lifting of most of the containment measures. In such conditions, the Croatian economy contracted only slightly in the third quarter of 2022 from the quarter before, while the annual growth rate of real activity slowed to 5.2%. Though the slowdown in the real annual dynamics is expected to continue in the fourth quarter, economic growth at the entire 2022 level might reach 6.3% owing to the very strong increase in the first half of the year. As the return of economic activity to the path of growth may not be expected until the second half of next year, GDP growth might decelerate sharply in 2023, to 1.4%.

Inflation might accelerate considerably in 2022 (to 10.6%), due to the high prices of energy and other raw materials, global supply chain delays and intense demand in the services sector. With the gradual reduction of imported inflation and the prices of imported energy products and other raw materials, inflation might drop to 7.5% in 2023. Risks associated with economic growth and inflation projections are mostly tilted to the downside.

The surplus in the current and capital account could decrease considerably in 2022, to 1.2% of GDP, mainly due to a marked increase in net exports of energy, and continue to edge down in 2023.

Also, the first indications of growth in interest rates appeared, associated with the spill over effects of the sharp and concerted tightening of monetary policy by global central banks, which worsened financing conditions in international financial markets. As a result, yields on government debt securities continued to go up and corporate financing costs started to rise, while there have not yet been significant changes in financing terms for loans to households. The expected continued tightening of the ECB’s monetary policy will lead to a further deterioration in financing conditions for the domestic economy. However, the intensity of the deterioration should be alleviated by the harmonisation of the set of CNB monetary policy instruments within the scope of the adoption of the euro at the beginning of 2023. The annual growth in total corporate financing continued its upward trend, largely due to rapid borrowing from domestic credit institutions, while the increase in household placements remained stable, with housing loans still accounting for the bulk of lending activity

Banks’ free reserves reached record highs in the second half of 2022. The average daily surplus kuna liquidity of the domestic banking system thus stood at HRK 84.8bn in November. The average daily liquidity surplus drifted up from last December to this November by HRK 13.7bn. This was due to the mentioned adjustment of the CNB’s monetary policy instruments in the process of euro area accession. In July 2022, the CNB adopted the Decision on amendments to the Decision on reserve requirements, lowering the reserve requirement rate from 9% to 5% as of August, followed by a further reduction to 1% as of December. Consequently, the kuna component of reserve requirements decreased by HRK 14.7bn in August, leading to an increase in surplus kuna liquidity of the domestic banking system. In July 2022, the CNB also adopted the Decision on amendments to the Decision on the minimum required amount of foreign currency claims, introducing a gradual revocation of the maintenance of foreign

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currency liabilities by foreign currency claims, by reducing the minimum maintenance percentage from 17% to 8.5% as of August and by entirely revoking the measure as of December.“

Achieved change rates in basic macroeconomic indicators for 2022 and the projection of their values for 2023 are as follows:

Change rates

	2022	2023
GDP	6,3	1,4
Private consumption	5,9	1,2
Government consumption	2,2	2,5
Fixed capital investments	5,6	3,2
Exports of goods and services	25,4	-0,5
Imports of goods and services	26,1	0,3
LABOUR MARKET		
Number of employed persons (rate)	2,5	0,4
PRICES		
Consumer price index (aver.r.)	10,5	7,5
EXTERNAL SECTOR		
Current Payments Balance Sheet (% GDP)	-1,4	-2,1
Gross external debt (% GDP)	73,3	67,3
MONETARY TRENDS		
Placements with private sector (trans.)	10,7	
Placements with private sector (nom.)	10,5	

**Source: CNB Macroeconomic Developments and Outlook No. 13
December 2022*

Financial result of the Bank's operations

In the conditions of the described business environment, we evaluate business in 2022 as successful. According to the audited financial report, the Bank generated a profit after tax in the amount of HRK 46,382 thousand in 2021, which resulted in a return on assets (ROA) of 1.4% and a return on equity (ROE) of 18.2%.

The relatively high values of both of these indicators are influenced by a one-time positive effect in the amount of HRK 23 million, realized on the basis of the final collection of the Bank's materially largest non-performing placement in March 2022. With the exclusion of this effect, looking at the Bank's result from regular operations, the realized value of these indicators amounts to 0.7% ROA, and ROE of 9.2%

Compared to the previous year, the realised profit after tax is higher by 85% or by HRK 21.4 million nominally.

The realised profit before tax from continuing operations amounted to HRK 54.2 million in 2022 which was an increase by 68% or HRK 21.8 million nominally, when compared to previous year. This significant increase in operating profit was mainly due to:

- Realized income from cancellation of provisions for non-performing loans in the amount of HRK 17.5 million, realized mainly on the basis of the collection of the most materially significant NPL
- Achieved increase in net interest by HRK 6.5 million or by 13%
- Realized increase in net income from commissions and fees by approximately HRK 0.9 million or by 5%

Realized profit before tax from discontinued operations amounts to HRK 2 million, and also refers mainly to the collection of the most materially significant NPL placement

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In 2022, the Bank has maintained a degree of business efficiency that has been assessed as satisfactory for a long period of time, taking into account, first of all, its size and market share. Good credit risk management contributed to positive business results, through the increased collection of non-performing placements.

The realised profit represents a solid potential for the continuation of the Bank's increased lending activity in 2023, that is, a sufficient potential to support the planned growth of loans to existing and new clients, primarily those from the retail and small and medium enterprises segment.

The Bank's lending activity in 2022 resulted in an increase in total loans to other customers by approximately 11%. This significant increase is a consequence of the growth of loans to legal entities, at a rate of 32%, and the growth of the portfolio of loans to households at a rate of 3%, with the maintained level of loans to the Republic of Croatia.

By implementing the measures established in the Strategy for the Reduction of Non-performing Loans, the Bank reduced this portfolio by 34% or HRK 41 million in 2022.

In the conditions of continuously present high liquidity of the Bank, which has been characteristic of the entire banking industry for a long time, the Bank maintained and additionally increased (by approximately 7%) its investments in highly liquid debt securities of the Republic of Croatia in 2022, including investments in treasury bills of the Ministry of Finance, which assets are mainly classified in the portfolio valued at depreciation cost. The share of these highly liquid assets ranged from 20-21% of the Bank's total assets during the year

At the end of 2022 the Bank's assets amounted to HRK 3.307 billion. Compared to the reported level at the end of 2021, it recorded a growth at nominal rate of 6.6%. Growth at real rate was 6.5%, that is, it was only slightly lower, given the very slight depreciation of Croatian kuna.

Customer deposits amounted to HRK 2,987,258 thousand at the end of December, which represents an increase of 5.2% compared to their level at the end of 2021. The period of low-interest rates in 2022 as is a continuation of the earlier observed trend of changes in the term structure of the deposit base in the direction of a decrease in term deposits, with the simultaneous growth of a vista deposits. Term deposits in 2022 recorded a decline of 6%, while a vista deposits grew at a rate of 10%.

Net interest income amounted to HRK 56,995 thousand, which is 13% higher than the year before; this level of net interest income was achieved under the conditions of an 8% growth in interest income and a 62% decrease in interest expenses.

The decrease in interest expenses is a consequence of lower costs on term deposits, but it was mainly due to significantly reduced interest costs on hybrid instruments due to their regular maturity and payment made during 2021.

Net income from fees and commissions amounted to HRK 19,347 thousand or 5% more than in 2021. The growth is the result of a growth in income from fees and commissions at a rate of 7%, with a simultaneous increase in expenses from fees and commissions at a rate of 13 %.

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

- Trading income in the amount of HRK 14,936 thousand or 1% higher than the previous year;
- Unrealised loss from assets valued at fair value through profit and loss in the amount of HRK 372 thousand, which is mainly based on the realised decline in the prices of the VVP portfolio - shares in funds and stocks

General and administrative expenses, including the costs of insurance premiums to CDIA as well as costs and depreciation, amounted to HRK 49,986 thousand or approximately 10% more than in the same period of 2021. The total level of expenses is thus higher by approximately HRK 4.5 million than in 2021, whereby the majority of that difference, or HRK 2.6 million, refers to the cost of the deposit insurance premium, which was completely absent in 2021.

The Bank's cost-to-income ratio (**C/I ratio**) was 55.4%, which is 1 per cent less favourable than the one achieved a year earlier. The worsening of the indicator in question was not significant, and was a consequence of a slightly higher rate of growth in costs compared to the recorded growth in income, with the assessment that in 2022 the Bank managed to maintain a satisfactory level of business efficiency.

The overall effect of value adjustments and provisions for losses on all bases was positive, i.e. it resulted in realised income from the cancellation of provisions in the total net amount of HRK 13.9 million; mainly on the basis of:

- realised cost of provisions for the so-called expected losses based on newly approved loans and placements in the current year in the amount of approx. HRK 3.0 million
- realised cost of depreciation of foreclosed assets in the amount of HRK 0.6 million
- realised income from cancellation of provisions in the portfolio of the so-called non-performing loans in the amount of HRK 17.5 million

The basic positions of assets and liabilities are as follows:

- **Highly liquid assets** represented by cash, deposits with the CNB and placements with banks amounted to HRK 1,246 million or 7% more than at the end of 2021.
- **Highly liquid assets** represented by bonds of the Republic of Croatia and local self-governments, shares in monetary funds, and treasury bills of the Ministry of Finance, allocated in a portfolio that is valued at fair value through profit or loss and a portfolio at amortized cost, amounted at the end of the year to HRK 721 million or 5% more than at the end of 2021, with a realized share in total assets of approximately 22%.
- **Loans and advances** amounted to HRK 1,297 million at the end of 2022, or 11% more than at the end of 2021.
- **Property, plant and equipment** amounted to HRK 23 million or 5% more than at the end of 2021;
- **Foreclosed assets and investments in real estate** at the end of 2022 amounted to HRK 17.6 million or 31% less than the previous year;
- The two previously mentioned items reduced their share in assets from a total of 1.5% to a total of 1.2%
- **Capital of the Bank** amounted to HRK 278 million at the end of 2022, which is 20% more than at the end of 2021; and this amount, made up for 8.4% of the Bank's total resources.

In addition to the established level of regulatory capital of HRK 277,8 million, the Bank showed the total capital adequacy ratio of **24.18%** at the end of 2022, the level of which exceeds, to a satisfactory extent, the established, both legally and internally set minimum rate of this indicator and together with available liquid assets has sufficient potential to support the planned lending activity in 2023.

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

Through the continuous structuring of the offer under competitive terms, the Bank maintained the level of the total loan portfolio in the past year, that is, recorded a decrease of less material importance (by 1%). Intensified lending activity in the Individuals segment was achieved, within which loans to individuals and craftsmen increased by 3%. Housing loans increased at a rate of 22%, while non-purpose cash loans decreased at a rate of 4.5%. Cooperation with local self-government units through special credit lines continued as well as cooperation with the Ministry related to subsidised housing loans to individuals, which cooperation has been going on since 2017, with the planned continuation in 2023.

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

Risk management

We believe that the good and responsible risk management also contributed to the achievement of a satisfactory and positive business result in 2022. Given its business model and risk profile, the Bank is continuously improving the process of monitoring and controlling all risks to which it is exposed. Within these risks, the focus of operations in the previous year remained on the most significant risks: credit risk, then market risks and, as usual, liquidity risk and operational risk.

In addition to the stable result from operating activities, the results of successful risk management are visible in the Bank's level of exposure to all types of risks, which continuously move within the legal and internally defined limits. The degree of exposure to all major risks was assessed as a moderate one with the stable movement as well as an acceptable management system for each of them. With a continuously high level of liquidity, during 2022 the Bank had additional positive developments in the area of credit risk exposure as visible through the reduced levels and share of non-performing loans, through the reduction of the level and share of overdue loans, and through the additional reduction of concentration levels and greater diversification achieved within credit risk exposure.

The description and presentation of the Bank's exposure to these risks are detailed in the Notes to the financial statements for 2022.

Own shares

During 2022, the Bank did not purchase its own shares.

The Bank's plan and expectations in 2023

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

In response to the continued accumulation of cyclical systemic risks, in particular the rise in residential property prices and the dynamisation of lending activity in the housing loans segment, the CNB announced raising the countercyclical capital buffer rate for Croatia from the current 0% to 0.5% with effect from 31 March 2023, and to 1% applicable at the end of 2023. The aim of the measure is to ensure the timely allocation of additional capital to strengthen the resilience of credit institutions to possible losses associated with exposure to cyclical systemic risks in the downward phase of the financial cycle or in the event of a sudden crisis.

Respecting the macroeconomic forecasts for 2023 which were presented in the introduction, as well as the well-known capital position of the Bank at the end of 2022 and the financial position characterised by a high degree of liquidity and continuous surpluses, the Bank defined a business plan for 2023 which contains basic goals and measures for achieving those goals.

In addition to retaining the business model, the business plan for 2022 accepts the strategy set out in the Business Plan for the period until 2025 which is based on the following basic management principles:

- Commitment to clients in order to maintain and gain loyalty of existing and new clients respectively
- Equal focus on doing business with corporate and individual clients with the aim of achieving and maintaining better risk diversification

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- Maintaining the existing dispersed sales network in the local and regional market where the Bank needs to further strengthen its market position, which has also proven to be a good infrastructure basis for obtaining primary sources of financing
- Preferring a stable deposit base that will support enhanced lending activity to clients with whom the Bank has established or will establish a comprehensive business relationship
- Continuous change in the structure of the balance sheet towards a gradual increase in interest-bearing assets and an increase in operating profit and total profit which will be the sole generator of credit growth
- Responsible management of all risks and maintenance and continuous improvement of credit risk monitoring and control

Activities and measures that the Bank will undertake in 2023 are aimed at achieving the following goals:

- Increase in total net operating income, primarily through the planned growth of net interest income while maintaining the level of net income from commissions and fees
- Credit growth
- Further decrease in non-performing loans
- Additional improvement of the degree of business efficiency to the target level of 45% C/I

Basic settings of the financial plan are:

- Asset change rate: +5%
- Deposit change rate: +4% with expected continuing trend of increasing a vista deposits, but also the beginning of the growth trend of term deposits, related to the expected growth of passive interest rates, which should stimulate the growth of this type of deposit
- Net loans to other customers change rate: +7%
- ROA: 1.4%, ROE: 15.9%

There is a justified expectation for the Bank, its clients and the wider local community that the Bank will continue to nurture its brand as the regional bank, which it has built in more than 70 years, arising from the fact that the new majority owners of the Bank are locally based. In addition to structured offerings to clients under competitive and attractive financial conditions, both for loans and deposits, the Bank's primary interest will continue to be to encourage domestic, especially regional economic recovery in an effort to further strengthen its regional presence.

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

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

Karlovac, 6 March 2023

PRESIDENT OF THE MANAGEMENT BOARD



Željka Surač

KARLOVAČKA BANKA PLC.

Supervisory Board

REPORT
ON THE ACTIVITIES OF THE SUPERVISORY BOARD IN 2022

In 2022, the Supervisory Board of Karlovačka banka d.d. was composed of: Nedjeljko Strikić - President, Bernarda Ivšić - Deputy President and Željko Tintor, Ana Kirinčić and Mato Crkvenac as Members.

The Supervisory Board convened regularly and in 2022 held a total of 30 sessions, of which all 30 were held by fax.

During 2022, the Risk and Audit Committee held 2 sessions by phone and 13 briefings, of which the Supervisory Board was informed.

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

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

During 2022, the Supervisory Board supervised the Management Board's management of the Bank's operations and established that the Bank had operated in accordance with the Law and Acts of the Bank as well as with the decisions of the General Assembly.

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

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

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

Karlovac, 8 March 2023



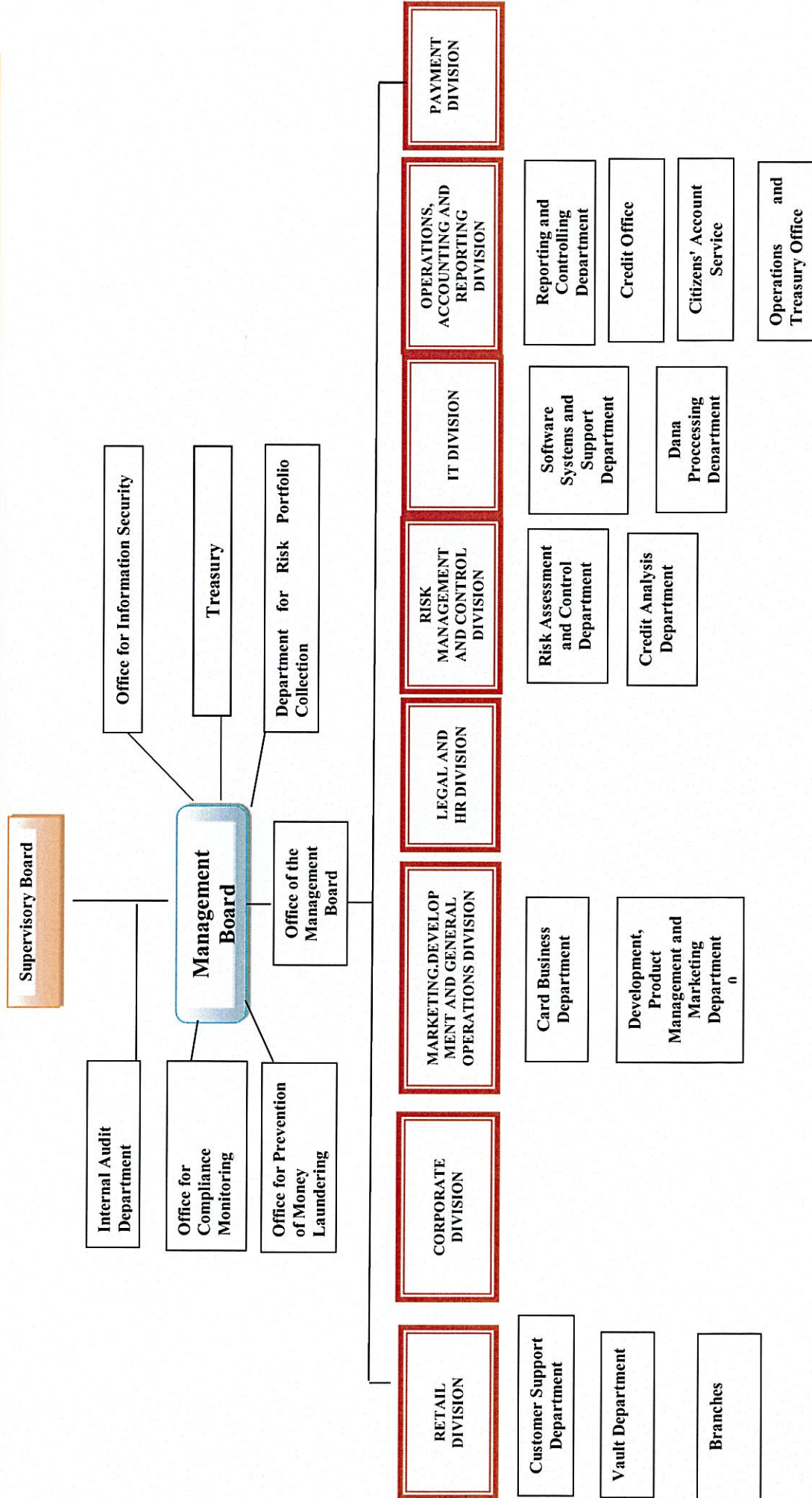
President of the Supervisory Board

Nedjeljko Strikić, MSc

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Management and Corporate Governance

Organisational chart of Karlovačka banka d.d.



Correspondent Banks as at 31 December 2022

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

AUD	Privredna banka Zagreb dd, Zagreb	PBZG HR 2X		IBAN: HR2023400091990016076	CP		
AUD	Zagrebacka banka dd, Zagreb	ZABA 2X	HR	IBAN: HR3423600001900000547		FX	MM
CAD	Privredna banka Zagreb dd, Zagreb	PBZG HR 2X		IBAN: HR2023400091990016076	CP		
CAD	Zagrebacka banka dd, Zagreb	ZABA 2X	HR	IBAN: HR3423600001900000547	CP	FX	MM
CHF	Privredna banka Zagreb dd, Zagreb	PBZG HR 2X		IBAN: HR2023400091990016076	CP		
CHF	Raiffeisenbank Austria dd, Zagreb	RZBH 2X	HR	IBAN: HR6024840081900001513	CP	FX	MM
CHF	Zagrebacka banka dd, Zagreb	ZABA 2X	HR	IBAN: HR3423600001900000547	CP	FX	MM
CZK	Zagrebacka banka dd, Zagreb	ZABA 2X	HR	IBAN: HR3423600001900000547	CP	FX	MM
DKK	Privredna banka Zagreb dd, Zagreb	PBZG HR 2X		IBAN: HR2023400091990016076	CP		
DKK	Zagrebacka banka dd, Zagreb	ZABA 2X	HR	HR3423600001900000547	CP	FX	MM
EUR	Banco Bilbao Vizcaya Argentaria SA, Madrid	BBVA MM	ES	IBAN: ES3801820061710080109344	CP		
EUR	Erste Group Bank AG, Vienna	GIBA WG	AT	IBAN: AT712010040331963300	CP	FX	MM
EUR	Intesa Sanpaolo SpA, Milan	BCIT IT MM		IBAN: IT42J0306940101100100004122	CP		
EUR	Karlovacka Banka dd, Karlovac	KALC 2X	HR	Member of SEPA payments	CP		
EUR	Karlovacka Banka dd,	KALC	HR	IBAN: HRPKALC2400008, T2HR	CP	FX	MM

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	Karlovac	2X						
EUR	UniCredit SpA, Milan	UNCR MM	IT	IBAN: IT40L020083297800000000925	CP	FX	MM	
GBP	Privredna banka Zagreb dd, Zagreb	PBZG HR 2X		IBAN: HR2023400091990016076	CP			
GBP	Zagrebacka banka dd, Zagreb	ZABA 2X	HR	IBAN: HR3423600001900000547	CP	FX	MM	
JPY	Zagrebacka banka dd, Zagreb	ZABA 2X	HR	IBAN: HR3423600001900000547	CP	FX	MM	
NOK	Zagrebacka banka dd, Zagreb	ZABA 2X	HR	IBAN: HR3423600001900000547	CP	FX	MM	
SEK	Skandinaviska Enskilda Banken AB, Stockholm	ESSE SE SS		IBAN:SE5650000000052018512463	CP	FX	MM	
SEK	Zagrebacka banka dd, Zagreb	ZABA 2X	HR	IBAN: HR3423600001900000547	CP	FX	MM	
USD	Raiffeisenbank Austria dd, Zagreb	RZBH 2X	HR	IBAN: HR8224840081900001505		FX	MM	
USD	Zagrebacka banka dd, Zagreb	ZABA 2X	HR	IBAN: HR3423600001900000547		FX	MM	
USD	Erste and Steiermaerkische bank dd, Rijeka	ESBCHR22		IBAN:HR4724020061970000118	CP			

Branch Network and Contact Details

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BRANCHES

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Ozalj	Trg braće Radić 2 47 280 Ozalj Phone (+385 47) 731 188 Fax (+385 47) 638 684 www.kaba.hr

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Management Board of Karlovačka banka d.d., Karlovac, Ivana Gorana Kovačića 1 (hereinafter: "the Bank") is responsible for ensuring that the annual financial statements for the year 2022 are prepared in accordance with the Accounting Act (Official Gazette No 78/2015, 134/2015, 120/2016, 116/2018, 42/2020 and 114/2022) and the International Financial Reporting Standards as to give true and fair view of the financial position, business results, changes in equity and cash flows of the Bank for that period.

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

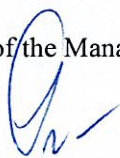
In preparing the annual financial statements, the Management Board of the Bank is responsible for:

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

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

Financial statements on pages 23 to 100 and the forms on pages 102 to 110 with accompanying adjustments on pages 111 to 118, which have been prepared in accordance with the Croatian National Bank's Decision on the structure and content of annual financial statements of credit institutions (OG. 42/2018 and amendments thereof in OG 122/2020, 119/2021 and 108/2022), have been approved by the Management Board on 6 March 2023 for submitting to the Supervisory Board and signed below.

On behalf of the Management Board:



Željka Surač
President of the
Management Board



Marino Rade
Member of the
Management Board



Stjepan Oreški
Member of the
Management Board

Karlovačka banka d.d.
Ivana Gorana Kovačića 1
47000 Karlovac
Republic of Croatia
Karlovac, 6 March 2023



INDEPENDENT AUDITOR'S REPORT

To the shareholders of Karlovačka banka d.d., Karlovac

The report on the audit of the annual financial statements

Opinion

We have audited the financial statements of Karlovačka banka d.d. ("the Bank"), which comprise the statement of financial position as at 31 December 2022, 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.

In our opinion, the accompanying financial statements give a true and fair view of the Bank's financial position as at 31 December 2022, 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.

Highlighting issues

We refer to Note 34 that states court proceedings referring to the Bank. Our opinion has not been modified in this regard.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (continued)

Impairment of loans to customers	
<p>As at 31 December 2022, gross loans to customers in the financial statements amount to HRK 1,363 million, related impairment allowance amounts to HRK 67 million and impairment loss recognised in the income statement amounts to HRK 14 million (31 December 2021: gross loans to customers: HRK 1,262 million, impairment allowance: HRK 88 million, impairment loss recognised in the income statement: HRK 3 million).</p>	
Key audit matter	How we addressed the key audit matter
<p>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. 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.</p> <p>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.</p> <p>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, and expected proceeds from the realization of collateral and determination of the expected credit losses of loans to customers which are all inherently uncertain.</p> <p>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.</p>	<p>Audit procedures</p> <p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • 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,

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
Key audit matters (continued)

Key audit matter (continued)	How we addressed the key audit matter
<p>For defaulted loans that are considered to be individually significant or non-performing corporate exposures exceeding HRK 0.5 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</p> <p>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.</p> <p>Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking 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.</p> <p>Related disclosures accompanying the annual financial statements</p> <p>For additional information, see Note 3.18 to the Annual Financial Statements (Key accounting estimates), Note 3.9 (Financial instruments), Note 14 (Impairment and provisions costs), Note 24 (Loans and advances to customers) and Note 45 (Credit risk).</p>	<ul style="list-style-type: none"> • 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, • 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, • evaluating the accuracy and completeness of the financial statement disclosures.

Other issues

The audit of the Bank's financial statements for the year ended 31 December 2021 has been performed by another auditor. In his Independent Auditor's Report from 18 February 2022 there has been stated a qualified audit opinion on these financial statements. The qualified audit opinion related to the fact that the Bank had not prepared the consolidated financial statements for the year ended 31 December 2021.

As stated in the Note 3.10, for the year ended 31 December 2022 the Bank has no obligation to prepare the consolidated financial statements.

This issue has no influence on Bank's annual financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other information in the Annual Report

The 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 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 Article 21 of the Accounting Act.

Based on the work that has been required as part of our audit of the financial statements and procedures above, in our opinion the information given in the Management Board Report of the Bank are in accordance with the financial information stated in the annual financial statements of the Bank set out on pages 23 to 100 on which we expressed our opinion as stated in the Opinion section above.

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 enable the preparation of annual financial statements that are free from material misstatement due to fraud or error.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)**Auditor's Responsibility for the Audit of the Annual Financial Statements (continued)**

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
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Among the matters we are communicating with those charged with governance, we determine those matters that are of utmost importance in revising the 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 the date of this Independent Auditor's Report we have been engaged in carrying out the statutory audit of the Bank's annual financial statements for the first time.

In the audit of the Bank's annual financial statements for 2022, we have determined the following materiality levels for the financial statements: HRK 5.56 million which represents approximately 2% of the of the Bank's net assets for 2022.

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 2022 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, 122/20, 119/21 and 108/22), the Bank's Management Board prepared the forms shown on pages 102 to 110 ("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 23 to 100 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, 146/20 and 151/22), the Bank presented the requested information on page 100 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 23 to 100 on which we have expressed an opinion as set out in the Opinion section above.

The partner engaged in the audit of the Bank's annual financial statements for the year 2022 resulting in this Independent auditor's report is Ivan Čajko, certified auditor.

In Zagreb, 31 March 2023

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



Ivan Čajko, Certified Auditor and
Member of the Management Board



BDO Croatia d.o.o.
Zagreb, Radnička cesta 180
OIB: 76394522236

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KARLOVAČKA BANKA d.d.
INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2022

Description	<i>Note</i>	2022 HRK '000	2021 HRK '000
Interest income	4	58,298	53,970
Interest expense	5	(1,303)	(3,430)
Net interest income		56,995	50,540
Fees and commissions income	6	27,540	25,696
Fees and commissions expense	7	(8,193)	(7,220)
Net income from fees and commissions		19,347	18,476
Profit from financial activities	8	14,551	14,590
Net foreign exchange gains (expenses)	9	(697)	(199)
Other income	10	205	324
Total other income		14,059	14,715
General administrative and other operating expenses	11,12,13	(49,986)	(45,527)
Impairments and provisions	14	13,765	(5,864)
Total other expenses		(36,221)	(51,391)
Profit from continuing operations		54,180	32,340
Profit/(Loss) from discontinued operations	27	2,028	(5,124)
Income tax	15	(9,826)	(2,199)
Profit for the year		46,382	25,017
Profit per share in HRK	16	2.64	1.42
Other comprehensive income for the year, net of taxes		0	366
TOTAL COMPREHENSIVE INCOME		46,382	25,383
Profit per share in HRK	16	2.64	1.44

Significant accounting policies and other notes on pages 27 to 100 form an integral part of these financial statements.

KARLOVAČKA BANKA d.d.
STATEMENT OF FINANCIAL POSITION
as at 31 December 2022

Description	Note	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
ASSETS			
Cash	18	1,012,166	908,311
Receivables from the Croatian National Bank	19	64,913	155,833
Placements with banks	20	169,119	102,252
Financial assets through other comprehensive income	21	149	149
Financial assets at amortized cost	22	720,547	675,279
Financial assets at fair value through profit and loss (FOB and FOP)	23	52	10,811
Loans and advances to customers	24	1,296,627	1,174,462
Property, plant and equipment	25	22,912	21,819
Intangible assets	26	128	15
Foreclosed assets and investment property	27	17,609	25,674
Other assets	28	3,325	26,829
Total assets		3,307,547	3,101,434
LIABILITIES			
Liabilities to banks	29	1	18
Demand deposits	30	2,169,621	1,966,155
Term deposits	31	817,637	873,713
Loan liabilities	32	1,272	1,660
Other liabilities	33	24,404	12,228
Provisions	34	5,911	5,342
Hybrid instruments	35	10,380	10,379
Total liabilities		3,029,226	2,869,495
CAPITAL			
Share capital	36	176,678	176,678
Profit for the year		46,382	25,017
Reserves		55,261	30,244
Total capital		278,321	231,939
Total liabilities and capital		3,307,547	3,101,434

Significant accounting policies and other notes on pages 27 to 100 form an integral part of these financial statements

KARLOVAČKA BANKA d.d.
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2022

Description	Share capital	Own shares	Fair value reserves of assets through other comp.income	Capital gain	Reserves		Retained profit	Profit for the year	Total
	HRK '000	HRK '000	HRK '000	HRK '000	Legal reserves	Other reserves	HRK '000	HRK '000	HRK '000
Balance as at 31 December 2020	176,678	0	0	0	376	0	0	29,502	206,556
Profit allocation	0	0	0	0	1,475	0	28,027	(29,502)	0
Increase in share capital	0	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0	0
Other comprehensive income	0	0	0	0	0	0	366	0	366
Profit for the period	0	0	0	0	0	0	0	25,017	25,017
Balance as at 31 December 2021	176,678	0	0	0	1,851	0	28,393	25,017	231,939
Profit allocation	0	0	0	0	1,250	0	23,767	(25,017)	0
Increase in share capital	0	0	0	0	0	0	0	0	0
Decrease in share capital	0	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0	0
Profit for the period	0	0	0	0	0	0	0	46,382	46,382
Balance as at 31 December 2022	176,678	0	0	0	3,101	0	52,160	46,382	278,321

Significant accounting policies and other notes on pages 27 to 100 form an integral part of these financial statements

KARLOVAČKA BANKA d.d.
STATEMENT OF CASH FLOWS - INDIRECT METHOD
for the year ended 31 December 2022

Description	2022 HRK '000	2021 HRK '000
NET CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	56,208	27,216
<i>Adjustment to net cash assets from operating activities</i>		
Depreciation	3,221	3,938
Loan impairments	(14,370)	2,620
Impairments and adjustments of other assets	56	254
Provisions for court disputes and employees	157	(136)
Value adjustments of property, plant and equipment and foreclosed assets	573	972
Other impairments and provisions (net)	(181)	2,154
(Increase) / Decrease in receivables from CNB	90,939	(14,451)
(Increase) / Decrease in placements with banks	(96)	(267)
(Increase) / Decrease in loans and advances to customers	(107,795)	9,520
Decrease in financial assets through other comprehensive income	-	1
(Increase) in financial assets at depreciated cost	(45,221)	(114,210)
Decrease in financial assets at fair value through income statement	10,759	636
(Increase) in other assets	23,447	(15,767)
Increase / (Decrease) in liabilities to financial institutions	(17)	17
Increase in demand deposits	203,466	522,926
(Decrease) in term deposits	(56,076)	(50,215)
(Decrease) in other liabilities	12,792	(328)
Paid income tax	(9,827)	(2,199)
Net cash flow from operating activities	168,035	372,681
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(3,992)	(488)
(Increase)/Decrease in foreclosed assets	7,492	(907)
Other changes	(436)	(180)
Net cash flow from investing activities	3,064	(1,575)
CASH FLOW FROM FINANCING ACTIVITIES		
(Decrease) in loan liabilities	(387)	(412)
(Decrease)/Increase in hybrid instruments	-	(43,458)
Other changes in capital (net)	-	366
Net cash flow from financing activities	(387)	(43,504)
Net change in cash and cash equivalents	170,712	327,602
Cash and cash equivalents at the beginning of the year (Note 38)	1,006,467	678,865
Cash and cash equivalents at the end of the year (Note 38)	1,177,179	1,006,467

Significant accounting policies and other notes on pages 27 to 100 form an integral part of these financial statements

I GENERAL INFORMATION

1.1. Legal framework and activities

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

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

The Bank's share capital as at 31 December 2021 amounted to HRK 176,678 thousand which is divided into 17,570,409 shares, of which 17,559,585 ordinary shares with nominal value of HRK 10 and 10,824 preferred shares with nominal value of HRK 100. Pursuant to the Decision of the General Assembly dated 14 December 2020 all the shares of the Bank that had been listed on the Zagreb Stock Exchange were withdrawn from the regulated market.

The Bank's shareholders as at 31 December 2022 and 31 December 2021 are stated below:

Shareholder	31 December	31 December
	2022	2021
	%	%
Marko Vuković	44.57	44.52
Ivan Žabčić	44.57	44.52
Pinjuh Jakov	1.75	1.75
Stanić Miro	1.75	1.75
Sandi Šola	1.69	1.69
Guerrero Devlahovic Jaime Ivan	0.65	0.65
Projekt Mejaši	0.34	0.34
Croatian Handball Federation	0.32	0.32
Gašpar Ante	0.30	0.30
Dragović Tatjana	0.25	0.25
Other shareholders	3.81	3.91
TOTAL	100.00	100.00

1.2. Corporate Governance Structure

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

As at 31 December 2022 the Bank's bodies were as follows:

GENERAL ASSEMBLY

Nedjeljko Strikić President of the General Assembly since 2 July 2014

SUPERVISORY BOARD

Nedjeljko Strikić President of the Supervisory Board since 16 February 2018

Bernarda Ivšić Deputy President of the Supervisory Board since 16 February 2018

Željko Tintor Member of the Supervisory Board since 16 February 2018

Ana Žabčić Member of the Supervisory Board since 16 February 2018

Mato Crkvenac Member of the Supervisory Board since 16 February 2018

MANAGEMENT BOARD

Željka Surač President of the Management Board since 6 March 2015

Marino Rade Member of the Management Board since 22 April 2014

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

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

As at 31 December 2022 the Bank had 159 employees (31 December 2021: 166 employees). Employee qualification structure as at 31 December 2022 and 31 December 2021 is stated below:

DESCRIPTION	Number of employees	Number of employees
	31 Dec 2022	31 Dec 2021
PhD	1	1
Master's degree	2	2
University degree	72	72
College degree	14	15
Secondary school	70	76
TOTAL	159	166

As of 31 December 2022, the Bank operated through the Central Office in Karlovac, 12 branches and one office: Central, Vladka Macke with the Draganići office, Tržnica located in Karlovac, and cities and towns: Zagreb, Rijeka, Jastrebarsko, Duga Resa, Ogulin, Ozalj, Slunj, Žakanje and Topusko.

II BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

2.1. Statement of compliance

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

The accounting regulations of the Croatian National Bank are based on International Financial Reporting Standards. Main differences between the accounting regulations of the CNB and IFRSs are the following:

- The CNB prescribes minimum amounts of impairment provision for secured placements depending on the default time and status, while in accordance with the IFRS reporting framework, impairments do not necessarily have to follow the amount and the trend stated by the *'Decision on the classification of exposures into risk groups and the method of determining credit losses'*. Calculations according to the CNB's Decision usually result in higher provisions and impairments.
- The next difference between the IFRSs and accounting rules of CNB relates to provisions for passive legal disputes. According to the *'Decision on obligatory provisioning for passive legal disputes against a credit institution'*, the Bank is obliged to ensure funds for court disputes for which there is no risk of loss or for which a cash outflow is estimated to be less than 10% of the total amount, if the total amount of court dispute exceeds 0.1% of the assets of the credit institution according to the audited financial statements for the previous year. The provision is made in the amount of estimated cash outflow, at minimum of 1% of the total amount of the court dispute, whereas according to IFRS in such a situation it is not necessary for the provision to be recognised. As at 31 December 2022, as well as at 31 December 2021, the Bank had no such provisions.

Basis of preparation:

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

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

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

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

III SUMMARY OF ACCOUNTING POLICIES

3.1. Changes in accounting policies

Adoption of new and amended International Financial Reporting Standards

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

In the current reporting period, the following amendments to existing standards published by the International Accounting Standards Board ("IASB") and adopted by the European Union are in force:

- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Annual revision of IFRS for the period 2018-2020 related to the first-time adoption of IFRS in subsidiaries (effective for annual periods beginning on or after 1 January 2022)
- Amendment to IFRS 3 "Business combinations" - Update of the conceptual framework for financial reporting, adopted by the European Union on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022)
- Amendment of IFRS 9 "Financial instruments" - Annual revision of IFRS for the period from 2018-2020 related to fees for derecognition of financial liabilities through the "10%" test (effective for annual periods beginning on or after 1 January 2022)
- Amendment of IFRS 16 "Leases" - Annual revision of IFRS for the period from 2018-2020 related exclusively for illustrative purposes
- Amendment to IAS 16 "Property, plant and equipment" - Prohibition of reduction of acquisition cost for inflows realized before the asset is put into its intended use, adopted in the European Union on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022)
- Amendment of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Interpretation of fulfilment costs related to onerous contracts, adopted in the European Union on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022)
- Amendment of IAS 41 "Agriculture" - Annual revision of IFRS - for the period from 2018-2020 related to the taxation of the fair value of biological assets or agricultural products

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

III SUMMARY OF ACCOUNTING POLICIES - continued

3.1. Changes in accounting policies - continued

Adoption of new and amended International Financial Reporting Standards – continued

(II) Standards issued by IASB and adopted by the EU but not yet in force

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

- Amendments to IFRS 17 „Insurance contracts“ - Initial Application of IFRS 17 and IFRS 9 – Comparative Information, issued on 8 September 2022 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 „Presentation of Financial Statements“ and IFRS Practice Statement 2 - Disclosure of Accounting policies, issued on 8 September 2022 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8 „Accounting policies, Changes in Accounting Estimates and Errors“ - Definition of Accounting Estimates, issued on 2 March 2022 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 12 „Income Taxes“ - Deferred Tax related to Assets and Liabilities arising from a Single Transaction, issued on 11 August 2022 (effective date for annual periods beginning on or after 1 January 2023).

(III) New standards and amendments to existing standards published by IASB, but not yet adopted in the European Union

The IFRSs currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB)), with the exception of the following new standards and amendments to existing standards, on which the European Union has not yet made a decision by 31 December 2022. (the effective dates listed below refer to IFRSs issued by IASB:

- Amendment to IFRS 16 "Leases" - Lease liability on sale with leaseback, effective for annual periods beginning on or after 1 January 2024.
- Amendment of IAS "Presentation of Financial Statements" - Classification of liabilities into short-term and long-term, classification of deferred liabilities into short-term and long-term and long-term liabilities related to covenants, effective for annual periods beginning on or after 1 January 2024.

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

III SUMMARY OF ACCOUNTING POLICIES - continued

3.2. Interest income and expenses

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

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

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

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

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

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

3.3. Fees and commissions income and expenses

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

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

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

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

III SUMMARY OF ACCOUNTING POLICIES - continued

3.5. Foreign currency translation

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

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

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

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

3.6. Cash and cash equivalents

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

Cash comprises cash in hand and funds in bank accounts.

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

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

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

3.7. Taxation

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

a) Current tax

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

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

b) Deferred tax

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

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

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

III SUMMARY OF ACCOUNTING POLICIES - continued

3.8. Employment benefits

a) Defined contribution schemes

The Bank pays contributions for defined contribution schemes on compulsory contractual basis. Once the defined contribution is paid, the Bank has no further obligations. Contributions are recognised as employee cost upon occurrence.

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

b) Severance payments

Severance pay in the event of early termination of employment is recognized as an expense when there is evidence that the Bank has committed, without a realistic possibility of withdrawal, to the application of a detailed formal plan that implies either termination of employment prior to the regular retirement date or the payment of severance pay based on an offer given as an incentive for voluntary resignation. Severance pay for voluntary resignation is recognized if the Bank has made an offer for voluntary resignation, if there is a probability that the offer will be accepted, and if the number of accepted offers can be reliably estimated. If severance payments are due for payment in a period of more than 12 months after the date of preparation of the financial statements, they are discounted to the present value.

c) Jubilee awards

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

3.9. Financial instruments

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

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

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

Classification and measurement of financial assets according to the IFRS 9

IFRS 9 – Financial instruments, introduced the approach of classifying financial assets according to the characteristics of cash flows and the business model in which the asset is held. The bank recognizes financial assets in portfolios measured:

- at amortized cost
- at fair value through profit or loss
- at fair value through other comprehensive income

depending on the selected business model based on contracted cash flows.

III **SUMMARY OF ACCOUNTING POLICIES - continued**

3.9. **Financial instruments - continued**

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

a) *Loans and advances measured at amortised cost*

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

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

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

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

Bearing in mind the complexity of the requirements of the IFRS 9 standard in terms of developing the LGD model on the one hand, as well as the size of the bank, a relatively simple portfolio structure and a small number of data on the other hand, for purpose of calculation of value corrections and reservations, the Bank uses the values of the LGD parameters defined by the Basel framework increased by a conservative factor of 5 percentage points.

b) *Securities and other financial instruments at fair value through profit or loss*

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

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

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

Fair value adjustments are carried out on a monthly basis.

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

Sold assets are derecognised on the settlement date of the transaction by the counterparty.

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

c) *Securities and other financial instruments that are compulsory valued at fair value through profit or loss*

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

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

Gains or losses arising from subsequent fair value adjustments are recognised in the profit or loss for the period in which they incur.

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

Sold assets are derecognised on the settlement date of the transaction by the counterparty.

III SUMMARY OF ACCOUNTING POLICIES - continued

3.9. Financial instruments – continued

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

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

Fair value adjustments are recognised in the profit or loss for the period when they incurred.

Fair value adjustments are carried out on a monthly basis.

d) Securities and other financial instruments valued at amortised cost

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

Securities and financial instruments valued at amortised cost are initially measured at investment cost, which includes transaction costs and subsequently at amortisation cost, subject to impairment testing.

Relocating debt securities to another portfolio shall be performed in exceptional and justified cases only. Property valuation in the new manner shall be done prospectively, i.e. from the day of the reclassification (IFRS 9, section 5.6.2. and 5.6.4.).

e) Securities at fair value through other comprehensive income

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

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

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

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

Reclassification of these instruments is not allowed.

Impairment

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

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

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

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

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

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

III SUMMARY OF ACCOUNTING POLICIES - continued

3.9. Financial instruments – continued

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

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

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

Correction - impairment for expected losses is determined and formed in accordance with the distribution of financial assets into certain risk groups.

In the event that there is no objective evidence of impairment or there is no increase in credit risk compared to the date of recognition of the financial asset, the asset is assigned to risk group A1.

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

When there is a real probability that the Bank will not be able to collect all the amounts it claims, i.e. there is evidence of impairment of financial assets, they are allocated to partially recoverable assets, i.e. risk groups B to C, in accordance with the Ordinance on the classification of exposures into risk groups and the method determination of credit losses with the Bank's operating procedures.

Impairment on an individual basis is regulated by the Ordinance on the classification of the Bank's exposure into risk groups and the method of determining credit losses with work procedures.

Based on the aforementioned rules, the Bank classifies exposures into two groups, namely:

- exposures that fall under the category of individually significant exposures to one person or a group of related persons exceeding HRK 500 thousand, and
- exposures included in the so-called portfolio of small loans where the Bank's total exposure to one person or a group of related persons is less than HRK 500 thousand.

Classification into certain risk groups according to the degree of credit risk is done for exposures that, in accordance with IFRS 9, are classified in the portfolio of assets measured at amortized cost or assets measured at fair value through other comprehensive income, except for equity instruments.

Value adjustments on a collective basis are calculated according to the model of expected credit losses (ECL) per financial asset. According to the form, ECL is defined as the expected loss during the lifetime of the financial asset (Stage 2), but by limiting the parameter T for one year, it can easily be redefined as a one-year expected loss (Stage 1). ECL for Stage 3 does not imply the use of this form and defined parameters and is therefore not the subject of this part of the methodology.

With the methodology for calculating impairment and provisions for exposures in risk subgroups A1 and A2, the Bank prescribed the application of three parameter models.

The EAD model represents the estimated gross book value at the time of default, taking into account the cash flows of the financial instrument, as well as possible additional withdrawals from the credit line, until the date of default, that is, during the lifetime of the financial asset. Although IFRS 9 does not explicitly require banks to model EAD, understanding how credit exposure will change over time is critical to an independent assessment of expected credit loss. The biggest challenge with EAD is to estimate this parameter for those assets for which the loss during the life of the asset is calculated (Stage 2). Ignoring the expected decrease in exposure (e.g. with loans that are paid successively) can lead to too high expected loss, i.e. ignoring the expected increase in exposure (e.g. with withdrawal from a credit line) can lead to too low expected loss.

III SUMMARY OF ACCOUNTING POLICIES - continued

3.9. Financial instruments – continued

The PD or Probability of Default model represents the probability of the client default status. The term lifetime PD represents the same probability for the entire remaining duration of the financial instrument. Marginal PD or MPD(t) represents the probability (unconditional) of occurrence of the default status in period t, while cumulative PD or CPD(t) represents the sum of all marginal PDs starting from the initial recognition up to some point in time t.

Taking into account the size and structure of the portfolio, as well as the availability of data, the Bank chose an approach based on migration matrices using the technique of "Markov chains" using homogeneous matrices in discrete time to calculate the PD parameter. The principle of this technique is the multiplication of migration matrices from period to period under the assumption that the schedule of migrations in the next period exclusively depends on the schedule in the current one. When constructing homogeneous matrices, migrations between classes (buckets) of delay days are observed.

Homogeneous matrices imply an identical structure of migrations from period to period, i.e. migrations from bucket to bucket do not depend on the moment in time in which they are observed. So it is assumed that the migration schedule is approximately the same in a year t with a period t+1 or t-2. Discrete matrices track migration at the end of one period compared to the end of the previous period (migrations during the year are not taken into account).

a) Other financial liabilities

Other financial liabilities include all financial liabilities that are not held for trading or are not classified at fair value through profit or loss.

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

3.10. Investments in subsidiaries

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

The Bank has a 100% ownership of Rezidencija Mejaši d.o.o. Karlovac (the Company). The share capital of this Company is HRK 20,000, and in the Bank's business books, its value is corrected by 100%.

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

Almost the entire Company's assets were inventories (land for construction), which were also given as a pledge for a loan granted to the Company by the Bank. Since the Company did not return the loan in question, the Bank initiated foreclosure on the mortgaged property in order to settle it. The foreclosure was initiated several years ago and was only completed in February 2022, through the takeover of the mortgaged property by the Bank as the sole buyer at the e-auction. By taking over the land in subject, the Bank collected most of its claims on the loan and recorded the rest of the claims (interest and principal in the amount of HRK 6,471 thousand) off-balance sheet. By implementation this foreclosure, the Company no longer reports assets.

III SUMMARY OF ACCOUNTING POLICIES – continued

3.10. Investments in subsidiaries - continued

Bearing in mind that the Company has no assets after the enforcement mentioned above, but only liabilities and that it also records a debt based on non-executed grounds for payment in a period longer than 60 days, all the legal requirements for opening and closing bankruptcy under abbreviated procedure have been met.

On 28 November 2022, a submission was sent to the Commercial Court in Zagreb, submitting a publicly certified list of assets and liabilities and proposing the opening and closing of bankruptcy proceedings against the company REZIDENCIJA MEJAŠI d.o.o. (St-2961/2022).

The Bank expects the decision on the opening and closing of bankruptcy proceedings will be brought in a very short period of time.

According to IFRS, on 31 December 2022, the Company did not meet the criteria for consolidation (31 December 2021: the Company met the criteria for consolidation).

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

3.11. Intangible assets

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

Description	2022	2021
Software	4 years	4 years
Leasehold investments	up to 10 years	up to 10 years
Other intangible assets	4 years	4 years

III SUMMARY OF ACCOUNTING POLICIES – continued

3.12. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, and they are tangible assets if their useful life is longer than one year and single value is greater than HRK 3,500 at the acquisition date. Cost includes purchase price, import duties and tax and other dependent costs of bringing assets to working condition for intended use, decreased by trade discounts. Subsequent expenditure on already recognised items of tangible assets is added to the carrying value of that asset only if it results in the inflow of future economic benefits over the economic benefits that those assets accrued before the subsequent expenditure. Otherwise, the subsequent expenditure is charged to the current expenses of the period in which it incurred.

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

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

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

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

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

Description	2022	2021
Buildings	40 years	40 years
IT equipment	4 years	4 years
Furniture	10 years	10 years
Personal vehicles	5 years	5 years
Other	10 years	10 years

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

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

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

III SUMMARY OF ACCOUNTING POLICIES - continued

3.12. Property and equipment - continued

Right-of-use assets

IFRS 16 Leases – the standard introduces a comprehensive model for identifying arrangements that contain leases as well as their accounting treatment by the Bank as the lessee. The Bank recognises assets and liabilities in its financial statements in part of lease contracts. These assets are recognised in the Bank's business records from the first date of the lease and are derecognised upon the expiration or termination of the lease.

Exceptions are lease agreements with a lease term not exceeding 12 months and lease contracts of small value. Such leases are not classified in this group of assets but are recorded as current liabilities and operating expenses over the term of the lease.

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

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

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

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

Since the first application of IFRS 16, the Bank has recorded right-of-use assets for leases with terms which do not expire within 12 months from the date of first application.

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

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

The Bank assesses marketability of assets acquired in lieu of uncollected receivables and recognises as assets only marketable assets the value of which can be measured reliably. Foreclosed assets are carried at the net recoverable amount of the related loan receivable or the fair value of the asset, whichever is lower. When such assets are sold, the difference between the purchase price and the carrying value is stated in other income or expenses.

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

Investment property

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

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

III **SUMMARY OF ACCOUNTING POLICIES - continued**

3.14. Loan liabilities

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

Subsequently, these liabilities are measured at amortised cost and as such are presented in the Bank's financial statements

3.15. Received deposits

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

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

3.16. Earnings per share

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

3.17. Issued subordinated and hybrid instruments

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

Subsequent valuation and presentation of subordinated and hybrid instruments is performed in accordance with the portfolio policy at amortised cost.

III SUMMARY OF ACCOUNTING POLICIES - continued

3.18. Key accounting estimates

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

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognised in the period in which they arise if they affect only that period or in the period in which they occur and in future periods if they affect current and future periods.

a) Losses from impairment of loans

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

Impairment for exposures that are not secured by adequate collateral is carried out on the basis of default days, while in assessing the required impairment for exposures secured by adequate collateral, the criterion of quality and value of collateral is used in addition to the criterion of default days as well as the type of measures taken for collection and historical data on deadlines for liquidation with the application of reduction factors for individual type of collateral. Impairment is determined as the positive difference between the gross carrying amount of an individual exposure and the present value of estimated future cash flows discounted at the effective interest rate.

b) Losses from court disputes

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

3.19. Contingent liabilities and commitments

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

Provisions for possible losses on contingent liabilities and commitments are maintained at a level that the Bank's Management Board deems sufficient to absorb possible future losses. The Management Board determines the adequacy of provisions based on reviews of individual items, current economic conditions, risk characteristics of different categories of transactions and other pertinent factors.

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

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

If the effect of the time value of money is significant, the amount of the provision is equal to the discounted value of expected future irrecoverable outflows to settle the off-balance sheet liability using a discount rate that corresponds to the current market value of the money. The effect of the time value of money is considered significant when it is estimated that the outflow of money will occur in a period longer than one year and the amount of expected outflow is greater than 0.1% of the Bank's assets.

III SUMMARY OF ACCOUNTING POLICIES - continued

3.20. Cash flow statement

For the cash flow reporting purposes, cash and cash equivalents include cash, placements and deposits to banks with maturities of up to 90 days.

3.21. Operating segments

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

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

3.22. Regulatory requirements

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

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

As at 31 December 2022 the regulatory capital ratio amounted to 24.18% (31 December 2021: 22.19%) which is a level that exceeds the regulatory and internal limit of this indicator.

NOTES TO THE INCOME STATEMENT

4. Interest income

a) Interest income – Analysis by source

Description	2022	2021
	HRK '000	HRK '000
Corporates	16,306	13,478
Retail	31,700	33,255
Financial institutions	2,323	407
Public sector	7,833	6,752
Other	136	78
Total interest income	58,298	53,970

b) Interest income – Analysis by product

Description	2022	2021
	HRK '000	HRK '000
Loans and receivables from customers	51,478	50,311
Loans and receivables from financial institutions	2,323	395
Debt securities	4,480	3,222
Other	17	42
Total interest income	58,298	53,970

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
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NOTES TO THE INCOME STATEMENT - continued

5. Interest expenses

a) Interest expenses – Analysis by recipient

Description	2022	2021
	HRK '000	HRK '000
Corporates	20	25
Retail	755	2,526
Financial institutions	349	774
Public sector	176	102
Non-profit institutions	3	3
Total interest expenses	1,303	3,430

b) Interest expenses – Analysis by product

Description	2022	2021
	HRK '000	HRK '000
Transaction accounts and deposits - retail	459	920
entities	73	76
Loans from financial institutions	-	-
Hybrid instruments	292	1,604
Interest on deposits with CNB and financial institutions	349	774
Other	130	56
Total interest expenses	1,303	3,430

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

NOTES TO THE INCOME STATEMENT - continued

6. Fee and commission income

Description	2022	2021
	HRK '000	HRK '000
Payment transaction	11,865	10,691
Approved loans	517	436
Guarantees and Letters of credit	912	913
Self-service devices	5,377	4,898
Account maintenance fees	5,427	5,367
Giro and current account cards	398	394
Credit cards	349	364
Mobile, Phone and Internet Banking	1,650	1,548
Mandates	57	58
Various service packages	351	366
Fees from foreign exchange transactions - retail	348	311
Other	289	350
Total fee and commission income	27,540	25,696

7. Fee and commission expenses

Description	2022	2021
	HRK '000	HRK '000
Payment service fee	4,802	3,876
Accepting and processing card transactions	2,266	2,263
Other	1,125	1,081
Total fee and commission expenses	8,193	7,220

8. Profit from financial activities

Description	2022	2021
	HRK '000	HRK '000
Profit from foreign currency trading	14,936	14,860
Loss from HRK cash trading	(13)	(14)
Loss from securities not actively traded with and valued at fair value through profit or loss	(372)	(528)
Profit from securities classified at amortised cost	-	272
Total profit from financial activities	14,551	14,590

NOTES TO THE INCOME STATEMENT - continued

9. Net foreign exchange income and expenses

Description	2022	2021
	HRK '000	HRK '000
Currency differences on translations	(2,798)	1,971
Currency differences from currency clause	2,101	(2,170)
Total net foreign exchange income	(697)	(199)

10. Other operating income

Description	2022	2021
	HRK '000	HRK '000
Office leases	160	137
Collection of damages and interest from previous years	4	49
Income from various contractual relationships	4	12
Other unspecified income	37	127
Total other operating income	205	325

11. General administrative and other operating expenses

Description	2022	2021
	HRK '000	HRK '000
Employee costs (Note 12)	27,647	26,451
Depreciation (Note 25 and Note 26)	3,221	3,938
Other operating expenses (Note 13)	19,118	15,138
Total general administrative and other operating expenses	49,986	45,527

NOTES TO THE INCOME STATEMENT - continued

12. Employee costs

Description	2022	2021
	HRK '000	HRK '000
Net salaries	14,148	13,841
Taxes and contributions from salaries	5,328	5,182
Contributions on salaries	3,213	3,151
Reimbursements to employees	4,958	4,277
Total employee costs	27,647	26,451

As at 31 December 2022 the Bank had 159 employees (31 December 2021: 166 employees).

13. Other operating expenses

Description	2022	2021
	HRK '000	HRK '000
Cost of material and similar expenses	1,888	1,498
Costs of services	11,998	11,041
Entertainment, advertising and promotion expenses	719	685
Remuneration of Supervisory Board	470	598
Savings deposits insurance	2,546	-
Other	1,497	1,316
Total other operating expenses	19,118	15,138

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

NOTES TO THE INCOME STATEMENT - continued

14. (Income) / expenses of impairment and provisions

Description	2022	2021
	HRK'000	HRK'000
Correction – impairment of loans and advances to customers (Note 24)	(17,039)	722
Correction – impairment of other assets (Note 28)	56	254
Impairment for expected credit losses (note 24)	2,669	1,899
Correction – impairment of financial assets at amortised cost (Note 22)	(46)	467
Collection of previously written-off receivables	(616)	(344)
Provisions for commitments and contingent liabilities (Note 34)	413	1,749
Provisions for court disputes and employees (Note 34)	157	(136)
Correction – impairment of bank placements (Note 20)	155	128
Correction – impairment of receivables from CNB (Note 19)	(19)	3
Impairment of cash (Note 18)	(68)	150
Impairment of tangible assets intended for sale and foreclosed assets (Notes 25 a) and 27)	573	972
Total impairment and provision (income)/costs	(13,765)	5,864

15. Income tax

Description	2022	2021
	HRK '000	HRK '000
Accounting profit/loss	56,208	27,216
Items increasing the tax base	2,303	3,845
Items decreasing the tax base	(4,340)	(19,043)
Income after increase and decrease	54,171	12,018
Tax base	54,171	12,018
Income tax rate	18%	18%
Tax liability	9,751	2,163
Changes in deferred tax assets	75	36
Total income tax liability	9,826	2,199

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

NOTES TO THE INCOME STATEMENT - continued

Income tax is calculated in accordance with Croatian legislation. The tax rate on taxable income is 18% (2021: 18%). As at 31 December 2022 shown income tax liability was increased by HRK 75 thousand of used tax assets and the current income tax liability in the Bank's income statement was HRK 9,751 thousand

16. Earnings per share

For the purpose of calculating earnings per share, earnings are calculated as the profit for the period attributable to the Bank's shareholders. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deduction of ordinary treasury shares. The weighted average number of ordinary shares used to calculate basic earnings per share was 17,559,585 (2021: 17,559,585). Since there is no effect of dilution of other instruments, basic and diluted earnings per share are the same.

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Profit for the year	46,382	25,017
Weighted average number of ordinary shares (in thousand)	17,560	17,560
Profit per share	2.64	1.42

17. Financial information by segment

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

The Retail segment includes individuals, craftsmen and freelance professions.

The Corporates segment includes public and private companies.

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

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

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

a) Income statement by segment for 2022 – operating segments

Description	Retail	Corporate	Financial institutions	Other	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Net interest income	30,945	16,286	1,975	7,789	56,995
Net fees and commissions income	14,996	7,114	(4,223)	1,460	19,347
Provisions and impairments of placements	(2,807)	17,555	(595)	(389)	13,765
Other	(28,234)	(5,985)	2,990	(2,669)	(33,898)
Result by segment	14,900	34,970	147	6,191	56,208
Income tax	(2,605)	(6,113)	(26)	(1,082)	(9,826)
Net result by segment	12,295	28,857	121	5,109	46,382

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

NOTES TO THE INCOME STATEMENT – continued

17. Financial information by segment - continued

b) Income statement by segment for 2021 – operating segments

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

c) Statement of financial position (Balance sheet) as at 31 December 2022 – operating segments

Description	Retail	Corporate	Financial institutions	Other	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Net placements	704,393	426,306	6,427	159,501	1,296,627
Financial assets through other comprehensive income	-	-	149	-	149
Financial assets at amortised cost	-	32,299	-	688,248	720,547
Financial assets at fair value (FOB and FOP)	-	52	-	-	52
Other	504	1,230	1,287,697	741	1,290,172
Assets by segment	704,897	459,887	1,294,273	848,490	3,307,547
Deposits and hybrids	2,087,682	680,208	905	228,844	2,997,639
Loans	-	-	1,272	-	1,272
Other	8,153	9,211	1,782	11,169	30,315
Liabilities by segment	2,095,835	689,419	3,959	240,013	3,029,226

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

NOTES TO THE INCOME STATEMENT – continued

17. Financial information by segment - continued

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

Description	Retail	Corporate	Financial institutions	Other	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Net placements	684,978	321,275	8,044	160,165	1,174,462
Financial assets through other comprehensive income	-	8	.141	-	149
Financial assets at amortised cost	-	54,520	-	620,759	675,279
Financial assets at fair value (FOB and FOP)	-	73	10,738	-	10,811
Other	452	876	1,214,388	25,017	1,240,733
Assets by segment	685,430	376,752	1,233,311	805,941	3,101,434
Deposits and hybrids	1,949,043	687,095	496	213,631	2,850,265
Loans	-	-	1,660	-	1,660
Other	7,343	7,408	281	2,538	17,570
Liabilities by segment	1,956,386	694,503	2,437	216,169	2,869,495

18. Cash

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Giro account	923,060	649,799
Cash in hand:		
- HRK	27,770	29,937
- foreign currency	20,221	20,459
Cash in foreign current accounts with foreign banks	3,992	115,253
Cash in foreign current accounts with domestic banks	37,388	93,195
Impairment	(265)	(332)
Total cash	1,012,166	908,311

NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET

18. Cash - continued

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

Description	2022	2021
	HRK '000	HRK '000
Balance as at 1 January	(332)	(182)
Net impairment (Note 14)	68	(150)
	(1)	-
Balance as at 31 December	(265)	(332)

19. Receivables from the Croatian National Bank

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Reserve requirement		
- HRK	-	155,868
Other deposits	64,929	-
Impairment	(16)	(35)
Total receivables from the Croatian National Bank	64,913	155,833

According to CNB Decision the Bank is required to calculate reserve requirement in the amount of 9% (2021: 9%) of the average daily balance of deposits and loans on which the reserve requirement is calculated. By the Decision amending the Decision on reserve requirements in the maintenance period from 10 August to 13 December 2022, the reserve requirement rate was reduced to 1%.

In the maintenance period from 10 August to 13 December, the percentage of allocation of the HRK part of the reserve requirement was 70%. In the maintenance period from 14 December to 31 December 2022, the percentage of allocation of the HRK part of the reserve requirement was 0%.

Exceptionally, in the maintenance period from 14 December to 31 December 2022, banks are obliged to maintain the foreign currency part of the reserve requirement with the average daily balance of funds in their own foreign currency euro settlement accounts with the CNB.

From 1 January 2023, banks will calculate and maintain minimum reserves in accordance with the regulations of the European Central Bank

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

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

19. Receivables from the Croatian National Bank - continued

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

Description	2022	2021
	HRK '000	HRK '000
Balance as at 1 January	(35)	(32)
Net impairment (note 14)	19	(3)
Balance as at 31 December	(16)	(35)

20. Placements with banks

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Short term deposits with domestic banks	68,564	-
Short term deposits with foreign banks	96,745	98,297
Guarantee deposits	4,106	4,096
Impairment	(296)	(141)
Total placements with banks	169,119	102,252

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

Description	2022	2021
	HRK '000	HRK '000
Balance as at 1 January	(141)	(13)
Net impairment (note 14)	(155)	(128)
Balance as at 31 December	(296)	(141)

KARLOVAČKA BANKA d.d.
 NOTES TO THE FINANCIAL STATEMENTS - continued
 for the year ended 31 December 2022

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

21. Financial assets valued through other comprehensive income

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Investments in equity securities	149	149
Total financial assets through OCI	149	150

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

DESCRIPTION	31 Dec 2022	31 Dec 2021
	HRK'000	HRK'000
Central Depository & Clearing Company Inc.	8	8
Croatian Register of Loan Obligations	141	141
Total shares	149	149

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

22. Financial assets valued at amortised cost

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Treasury bills of the Ministry of Finance	171,531	185,141
Corporate bonds	32,401	54,831
Croatian Government bonds	518,895	437,633
Impairment	(2,280)	(2,326)
Total financial assets valued at amortisation cost	720,547	675,279

/i/ Investments in treasury bills of the Ministry of Finance in EUR that mature on 5 May 2023 with the yield of 0.10% (-0.05% in 2021).

Investments in treasury bills of the Ministry of Finance in HRK that mature in the period of up to 12 months for which that Bank achieved a yield of 0.067% in 2021 (0.02% in 2021).

Investments in treasury bills of the Ministry of Finance with a currency clause in EUR that mature on 16 February 2023 with a yield of -0.10%.

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

22. Financial assets valued at amortised cost

/ii/ Croatian Government bonds in HRK mature in the period of 1 to 4 years and on them the Bank achieved the yield of 1.0% (2021: 0.47%).

/iii/ Croatian Government bonds in foreign currency mature in the period of 1 to 6 years and the Bank achieved the yield of 1.77% (2021: 1.03%).

/iv/ Croatian Government bonds with currency clause in EUR mature in the period of 2 to 8 years and the Bank achieved the yield of 1.18% (2021: 0.18%).

/v/ Corporate bonds in HRK mature in 2023 and 2026 and the Bank achieved the yield of 1.29% (2021: 1.29%).

/vi/ The bonds of the Ministry of Finance in USD mature in 2023 and 2024, and the Bank achieved a yield of 4.744% on them.

/vii/ HEP bonds in USD mature in October 2023 and the Bank achieved a yield of 2.394% (2021; 2.394%) on them.

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

Description	2022	2021
	HRK '000	HRK '000
Balance as at 31 January	(2,326)	(1,859)
Net impairment (note 14)	46	(467)
Balance as at 31 December	(2,280)	(2,326)

23. Financial assets at fair value through profit or loss

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Shares in investment funds	-	10,738
Equity securities	52	73
Total financial assets at fair value through profit or loss	52	10,811

Shares in investment funds refer to investments in the bond fund of the Eurozone member states and no yield was realized on it because we exited the fund in April 2022 (2021; -4.7%).

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

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

23. Financial assets at fair value through profit or loss - continued

Investments in equity securities refer to investment in shares of Varteks (HRK 73 thousand) and shares of VIS d.d. received in exchange for uncollected receivables at fair value of HRK 0.00.

24. Loans and advances to customers

<u>Description</u>	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Corporates	455,083	371,086
Retail and sole traders	743,877	724,782
Other	166,420	168,429
Collected fees related to future periods	(2,099)	(2,006)
Impairment for credit losses	(66,654)	(87,829)
Total loans and advances to customers	1,296,627	1,174,462

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

24. Loans and advances to customers - continued

Movements on impairments are shown below:

Description	2022			2021		
	Impairment for losses (B and C)	Impairment for expected losses (A1 and A2)	Total	Impairment for losses (B and C)	Impairment for expected losses (A1 and A2)	Total
Balance as at 1 January	71,246	16,583	87,829	95,297	14,684	109,981
Net impairment (note 14)	(17,039)	2,669	(14,370)	722	1,899	2,621
Exchange rate differences	29	-	29	(41)	-	(41)
Write-offs and other	(6,834)	-	(6,834)	(24,732)	-	(24,732)
Balance as at 31 December	47,402	19,252	66,654	71,246	16,583	87,829

The amount of approved unused overdrafts does not call for commitment of funds in the total amount of approved overdrafts. Overdrafts are granted for a systematic and timely insurance of preconditions for potential and necessary financing. Potential loss from the commitments cannot be determined but according to the experience from previous accounting periods and the effectiveness of existing mechanisms to protect the Bank in case of deterioration of financial position or performance of the client, the Bank does not expect additional losses greater than those stated in the financial statements for 2022.

KARLOVAČKA BANKA d.d.
 NOTES TO THE FINANCIAL STATEMENTS - continued
 for the year ended 31 December 2022

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

24. Loans and advances to customers - continued - RISKS

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

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Manufacturing	92,571	72,075
Trade	143,279	134,375
Tourism	11,057	22,433
Agriculture	25,111	15,429
Construction	243,548	185,259
Services	123,885	149,327
Individuals	681,688	674,346
Other	44,241	11,053
Total by sector	1,365,380	1,264,297
Collected fees related to future periods	(2,099)	(2,006)
Impairments for losses	(66,654)	(87,829)
Total net loans and advances to customers	1,296,627	1,174,462

KARLOVAČKA BANKA d.d.
 NOTES TO THE FINANCIAL STATEMENTS - continued
 for the year ended 31 December 2022

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

25. Property, plant and equipment

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

Description	Buildings and land	Right-of-use assets	Equipment	Furniture and vehicles	Other assets	Tangible assets under construction	TOTAL
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Purchase value							
Balance as at 31 December 2020	54,800	869	32,743	10,052	1,635	5,007	105,106
Direct increase	-	-	-	-	-	330	330
Transfer from assets under construction	33	-	265	-	21	(319)	-
Other transfers	-	270	-	-	-	-	270
Disposals and sales	-	-	(1,225)	(870)	(172)	-	(2,267)
Balance as at 31 December 2021	54,833	1,139	31,783	9,182	1,484	5,018	103,439
Direct increase	-	-	2,045	176	21	(2,241)	-
Transfer from assets under construction	-	-	-	-	-	3,851	3,851
Other transfers	-	452	-	-	-	-	452
Disposals and sales	-	(871)	(1,771)	(48)	(31)	-	(2,721)
Balance as at 31 December 2022	54,833	720	32,056	9,310	1,474	6,628	105,021
Depreciation and impairment							
Balance as at 31 December 2020	39,134	419	27,942	8,907	1,236	2,469	80,107
Depreciation for 2021	1,012	-	2,056	237	10	105	3,420
Depreciation of leased assets	-	428	-	-	-	-	428
Disposals and sales	-	-	(1,181)	(870)	(172)	-	(2,223)
Other transfers	-	(112)	-	-	-	-	(112)
Balance as at 31 December 2021	40,146	735	28,817	8,274	1,074	2,574	81,620
Depreciation for 2022	1,008	-	1,444	223	11	105	2,791
Depreciation of leased assets	-	402	-	-	-	-	402
Disposals and sales	-	(859)	(1,771)	(48)	(31)	-	(2,709)
Other transfers	-	5	-	-	-	-	4
Balance as at 31 December 2022	41,154	283	28,490	8,449	1,054	2,679	82,109

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

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

25. Property, plant and equipment - continued

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

Description	Buildings and land	Right-of-use assets	Equipment	Furniture and vehicles	Other assets	Tangible assets under construction	TOTAL
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Net carrying value as at 31 December 2020	15,666	450	4,801	1,145	399	2,538	24,999
Net carrying value as at 31 December 2021	14,687	404	2,966	908	410	2,444	21,819
Net carrying value as at 31 December 2022	13,679	437	3,566	861	420	3,948	22,912

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

The cost of assets that have been fully depreciated but still used in the Bank's business amounted to HRK 42,051 thousand.

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

26. Intangible assets

Overview of changes in intangible assets is shown below:

Description	Software	Investments in leasehold assets	Other assets	TOTAL
<i>Purchase value</i>				
Balance as at 31 December 2020	2,257	6,674	533	9,464
Procurement	-	-	-	-
Transfer from assets under construction	-	-	-	-
Balance as at 31 December 2021	2,257	6,674	533	9,464
Disposals and sales	-	-	-	-
Procurement	141	-	-	141
Transfer from assets under construction	-	-	-	-
Balance as at 31 December 2022	2,398	6,674	533	9,605
<i>Amortisation and impairment</i>				
Balance as at 31 December 2020	2,152	6,674	533	9,359
Amortisation for 2021	90	-	-	90
Disposals and sales	-	-	-	-
Balance as at 31 December 2021	2,242	6,674	533	9,449
Amortisation for 2022	28	-	-	28
Disposals and sales	-	-	-	-
Balance as at 31 December 2022	2,270	6,674	533	9,477
Net carrying value as at 31 December 2021	15	-	-	15
Net carrying value as at 31 December 2022	128	-	-	128

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

27. Foreclosed assets and investment property

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Land	1,966	6,773
Buildings	13,401	15,411
Apartments and other assets	2,242	3,490
Total:	17,609	25,674

Foreclosed assets

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Land	1,966	6,773
Buildings	6,045	6,230
Apartments and other assets	2,242	3,490
Total:	10,253	16,493

/i/ Land reported as of 31 December 2022 in the amount of HRK 1,966 thousand (31 December 2021: HRK 6,773 thousand) refers to 2 construction plots located in a total of 2 counties in the Republic of Croatia, of which the more valuable land is located in Zagreb County.

/ii/ Construction facilities reported as of 31 December 2022 in the amount of HRK 6,045 thousand (31 December 2021 HRK 6,230 thousand) mostly refer to foreclosed construction facilities for business purposes; it is a total of 3 construction facilities, one of which is located in Karlovac County and two facilities in the vicinity of Pakrac

/iii/ Residential buildings and apartments in the total amount of HRK 2,242,000 (in 2021, HRK 3,490,000) contain a total of 11 apartments, houses and garages, which, both in terms of number and value, mostly refer to those located in the Karlovac and Karlovac County.

/iv/ In addition to the listed locations, investment property on 31 December 2022 consists of 1 construction facility in Karlovac worth HRK 7,356,000, which was on 31 December 2022 classified in accordance with IFRS 5 as an asset available for sale. Considering that the sale was not realized in the planned time, the property is further classified as an investment property

/v/ During the sale of foreclosed assets and assets intended for sale, a net profit/(loss) from discontinued operations was realized in the amount of HRK 2,028 thousand (2021 HRK 5,124 thousand).

KARLOVAČKA BANKA d.d.
 NOTES TO THE FINANCIAL STATEMENTS - continued
 for the year ended 31 December 2022

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

27. Foreclosed assets and investment property - continued

Overview of changes in foreclosed assets is shown below:

Description	Land	Buildings	Apartments and other assets	Total
<i>Cost</i>				
Balance at 31 December 2020	7,929	7,546	3,335	18,810
Foreclosure and PTT	-	279	2,600	2,879
Sale	-	(288)	(1,701)	(1,989)
Balance at 31 December 2021	7,929	7,537	4,234	19,700
Foreclosure and PTT	24,961	-	-	24,961
Sale	(30,365)	-	(1,182)	(31,547)
Balance at 31 December 2022	2,525	7,537	3,052	13,115
<i>Depreciation and impairment</i>				
Balance at 31 December 2020	1,156	1,122	678	2,956
Depreciation	-	185	437	622
Sale	-	-	(371)	(371)
Balance at 31 December 2021	1,156	1,307	745	3,207
Depreciation and impairment	-	185	65	250
Sale	(596)	-	-	(596)
Balance at 31 December 2022	560	1,492	810	2,862
Net carrying value at 31 December 2020	6,773	6,424	2,657	15,854
Net carrying value at 31 December 2021	6,773	6,230	3,490	16,493
Net carrying value at 31 December 2022	1,966	6,045	2,242	10,253

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

27. Foreclosed assets and investment property - continued

Overview of changes in investment property is shown below:

Description	Land	Buildings	Apartments	TOTAL
<i>Cost</i>				
Balance at 31 December 2020	12	21,416	43	21,471
Sale	(12)	(1,278)	-	(1,290)
Balance at 31 December 2021	-	20,138	43	20,181
Sale	-	(3,390)	-	(3,390)
Balance at 31 December 2022	-	16,748	43	16,791
<i>Depreciation and impairment</i>				
Balance at 31 December 2020	-	11,543	43	11,586
Depreciation and impairment		350	-	350
Sale		(936)	-	(936)
Balance at 31 December 2021	-	10,957	43	11,000
Depreciation and impairment	-	323	-	323
Sale		(1,888)	-	(1,888)
Balance at 31 December 2022	-	9,392	43	9,435
Net carrying value at 31 December 2020	12	9,873	-	9,885
Net carrying value at 31 December 2021	-	9,181	-	9,181
Net carrying value at 31 December 2022	-	7,356	-	7,356

KARLOVAČKA BANKA d.d.
 NOTES TO THE FINANCIAL STATEMENTS - continued
 for the year ended 31 December 2022

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

28. **Other assets**

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Fees and commissions receivables	1,309	1,256
Trade receivables	160	184
Prepayment receivables	762	24,758
Prepaid costs	379	370
Prepaid taxes and contributions	2	9
Receivables from card transactions	850	352
Receivables from various contractual relations	59	96
Other receivables	445	465
Impairment	(1,240)	(1,336)
Net deferred tax assets	599	675
Total other assets	3,325	26,829

Changes in impairments are shown below:

Description	2022	2021
	HRK '000	HRK '000
Balance at 1 January	1,336	1,581
New impairment (note 14)	366	597
Amounts collected and released (note 14)	(310)	(343)
Exchange rate differences	-	-
Write-offs and corrections	(152)	(499)
Balance at 31 December	1,240	1,336

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

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

28. Other assets - continued

Deferred tax assets are stated at the following temporary differences:

Description	2022		2021	
	HRK '000 Gross	HRK '000 Net	HRK '000 Gross	HRK '000 Net
Deferred fees for approved loans	2,454	442	2,360	424
Unrealised securities losses	809	146	1,326	239
Net property adjustment	64	11	64	12
Balance at 31 December	3,328	599	3,750	675

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

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

Changes in tax assets:

Description	2022	2021
	HRK '000	HRK '000
Balance at 1 January	675	710
Recognition of deferred tax assets	21	21
Use of deferred tax assets	(97)	(56)
Balance at 31 December	599	675

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

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

29. Liabilities to banks

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Demand deposits		
- HRK	1	18
Total demand deposits	1	18

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

30. Demand deposits

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Demand deposits – retail		
- HRK	750,100	652,167
- foreign currency	534,035	436,603
Total retail	1,284,135	1,088,770
Demand deposits - corporates		
- HRK	311,235	302,481
- foreign currency	347,487	375,693
Total corporates	658,722	678,174
Demand deposits – financial institutions		
- HRK	751	478
- foreign currency	-	-
Total financial institutions	751	478
Demand deposits – State and other institutions		
- HRK	193,222	169,743
- foreign currency	1,187	1,800
Total State and other institutions	194,409	171,543
Restricted deposits		
- HRK	5,646	3,678
- foreign currency	6,064	6,778
Total restricted deposits	11,710	10,456
Deposits – foreign persons		
- HRK	6,602	5,915
- foreign currency	13,292	10,819
Total foreign persons	19,894	16,734
Total demand deposits	2,169,621	1,966,155

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

31. Term deposits

Description	31 Dec	31 Dec 2021
	2022	
	HRK '000	HRK '000
Deposits – retail		
- HRK	242,593	264,933
- foreign currency	541,793	584,961
Total retail	784,386	849,894
Deposits – corporates		
- HRK	19,345	8,920
- foreign currency	-	1
Total corporates	19,345	8,921
Deposits – State and other institutions		
- HRK	445	585
- foreign currency	1,077	1,055
Total State and other institutions	1,522	1,640
Deposits – foreign persons		
- HRK	866	1,169
- foreign currency	11,518	12,089
Total foreign persons	12,384	13,258
Total term deposits	817,637	873,713

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

32. Loan liabilities

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Domestic banks	1,272	1,660
Total loan liabilities	1,272	1,660

The liability to CBRD as of 31 December 2022 was HRK 1,272 thousand (2021: HRK 1,660 thousand). These resources are intended for granting loans to natural persons in accordance with CBRD's programs for remediation of the consequences of war damage, with an average interest rate of 0% (0% in 2021)..

33. Other liabilities

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Fees and commissions payables	151	132
Liabilities to employees	2,326	1,939
Taxes and contributions	8,154	353
Liabilities to suppliers	1,316	898
Liabilities to the CNB for advance provision	1,631	-
Liabilities for loan subscriptions	3,869	3,702
Accrued loan interests and receivables discount	378	1,705
Operating lease liabilities	414	418
Premium for deposit insurance	1,336	-
Liabilities for POS terminals transactions	-	257
Orders sent to NCS (National Clearing System-NKS)	3,302	1,242
Liabilities for public housing	59	60
Collected deferred income	700	678
Liabilities for tax and surtax on savings interest	-	30
Bearer savings	113	113
Other liabilities	655	701
Total other liabilities	24,404	12,228

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

34. Provisions

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Provisions for employee remuneration	816	694
Provisions for court disputes	35	-
Provisions for identified losses on off-balance sheet contingent liabilities	164	167
Expected losses from contingent liabilities	4,896	4,481
Total provisions	5,911	5,342

/i/ Changes in provisions are shown below:

Description	2022	2021
	HRK '000	HRK '000
Balance at 1 January	5,342	3,730
Increase in provisions for court disputes and employee remuneration (note 14)	317	5,832
(Utilisation) of provisions for court disputes and employee remuneration (note 14)	(160)	(5,969)
Changes in provisions for contingent liabilities and commitments (note 14)	412	1,749
Balance at 31 December	5,911	5,342

/ii/ As at 31 December 2022 the Bank was actively engaged in 40 court proceedings against corporates and 31 court proceedings against individuals.

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

The Bank is conducting collection procedures for 27 cases in which bankruptcy procedures have been initiated against corporate debtors and 5 cases in which bankruptcy procedures have been initiated against individual debtors (consumers).

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

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

34. Provisions – continued

In procedures for payment in 2022 there were three court cases that were more significant when the amount is concerned. Those were civil proceedings initiated by individuals who were granted loans in the Bank that were directly placed into capitalisation account of the joint stock company and also civil proceedings for payment.

One of these disputes was terminated in favour of the Bank by the Supreme Court judgement. At the beginning of 2021 the plaintiff filed a constitutional complaint against the Supreme Court's decision in early 2021 which was dismissed.

In the second proceeding, a first-instance judgment was rendered in favour of the Bank against which the plaintiff appealed to the High Commercial Court. The High Commercial Court reversed the judgment of the Commercial Court in Zagreb by accepting the claim in full, based on which the Bank paid the total amount of the lawsuit to the plaintiff and at the same time submitted a proposal to the Supreme Court to allow a review. It is not possible to assess the time or manner in which the Supreme Court will decide on this proposal. In the payment proceedings, the High Commercial Court rejected the Bank's appeal and upheld the judgment of the Commercial Court in Rijeka thus ordering the Bank to pay the entire claim. The Bank effected the payment in full according to the final judgment and filed a motion with the Supreme Court for permission to review. The Supreme Court allowed the filing of a review in this case, and the Bank filed it. The decision of the Supreme Court is awaited.

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

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

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

1. The decision of the general assembly of 110 February 2014, namely the decision to reduce the share capital by the amount of HRK 92.642 million, excluding the right of priority when registering new shares, increase the share capital by the amount of HRK 72.734 million, and partially change the Bank's Statute.
In this case, a final judgment was passed in favour of the plaintiff, against whom the Bank filed an appeal with the Supreme Court of the Republic of Croatia, as an extraordinary legal remedy. It is not possible to estimate in what time frame and in what way the Supreme Court will decide on the proposed revision. However, attention is drawn to the fact that the Bank was legally successful in the related case and that the outcome of this revision procedure should not have negative consequences for the Bank.
2. Also, after the General Assembly of the Bank in December 2020 made a decision to withdraw shares from the Zagreb Stock Exchange, a group of small shareholders filed a lawsuit to determine the voidness of the decision in question. The Commercial Court in Zagreb issued a non-final verdict rejecting the claim, to which the plaintiffs appealed, and the case is being resolved by the High Commercial Court in Zagreb. It is not possible to estimate when and how the High Commercial Court will decide on the appeal.

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

34. Provisions – continued

In these procedures, the Bank undertakes all available actions to protect the interests of shareholders and the Bank, as well as to protect the public interest, and regularly reports on them to the supervisory body.

35. Hybrid instruments

Hybrid instruments are special instruments of capital investment, deposits without the possibility of payment before the expiry of the contractual period, except for entry into the equity or due to the conversion of for the conversion of hybrid instruments into shares. According to CNB regulations these instruments affect the increase of the Bank's regulatory capital when calculating capital adequacy. Hybrid instruments amounted to HRK 10,380 thousand as at 31 December 2022 (2021: HRK 10,379 thousand). The balance included 2 hybrid instruments that mature in May 2023. Instruments are subject to linear depreciation and their non-depreciated value is included in the calculation of regulatory capital: HRK 807 thousand as at 31 December 2022 (2021: HRK 2,882 thousand).

36. Share capital

As at 31 December 2022 the Bank's share capital amounted to HRK 176,678 thousand and is divided into 17,570,409 shares, of which 17,559,585 ordinary shares with a nominal value of HRK 10 and 10,824 preferred shares with a nominal value of HRK 100.

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

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

Regulatory capital

The regulatory capital of the Bank and the capital adequacy rate for 2022 were calculated in accordance with the requirements of the Decision on IT solutions for the submission of reports of credit institutions in accordance with EU regulations (OG 146/2021). The said Decision is in conformity with the provisions of the Regulation no. 2018/1624 and Implementing Regulation of the EU Commission no. 2021/451. As at 31 December 2022 the regulatory capital of the Bank amounted to HRK 277,757 thousand (2021: HRK 233,552 thousand) while the capital adequacy rate amounted to 24.18% (2021: 22.19%) in relation to the prescribed minimum rate of 12%.

Description	2022 HRK'000	2021 HRK'000
Regulatory capital		
<i>Share capital</i>	276,950	230,670
<i>Regular share capital</i>	276,950	230,670
Issued stock capital	175,436	175,436
Retained profit (excluding profit for the year)	52,159	28,393
Net profit/(loss) for the year	46,382	25,017
Other reserves	3,101	1,851
<i>Deductions in line with CNB regulations</i>		
Intangible assets	(128)	(15)
Impairment of CET1 due to prudential filters	-	(12)
Total regular share capital	279,950	230,670
Additional share capital	-	-
Share capital	276,950	230,670
Supplementary capital	807	2,882
Total regulatory capital	277,757	233,552
Total amount of risk exposure	1,148,919	1,052,359
Capital adequacy rate	24.18 %	22.19 %

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

37. Contingent liabilities and commitments

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Performance guarantees		
- HRK	40,336	36,111
- foreign currency	1,921	1,805
Payment guarantees		
- HRK	3,114	3,617
- foreign currency	2,290	4,954
Letters of credit		
- foreign currency		-
Granted unused overdrafts	345,188	303,335
Other	3,365	9,679
Total contingent liabilities and commitments	396,214	359,501
Provisions for contingent liabilities and commitments	(5,061)	(4,647)
Total net contingent liabilities and commitments	391,153	354,854

38. Cash and cash equivalents

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Cash	1,012,166	908,311
Placements with banks with remaining maturity of up to 3 months	165,013	98,156
Total cash and cash equivalents	1,177,179	1,006,467

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

39. Funds for and on behalf of third parties

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

Description	2022	2021
	HRK '000	HRK '000
Total sources	5,755	5,750
Less: assets	(5,755)	(5,750)
Unused funds	-	-

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

Persons in a special relation with the credit institution are:

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

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

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

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

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

Immediate family members are:

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

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

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

/i/ Receivables and payables of related parties at 31 December 2022 are shown below:

	2022 in '000 HRK			
Related parties	Loans and receivables	Contingent liabilities and commitments	Deposits and hybrids	Other liabilities
Shareholders with over 5% of ordinary shares and their related parties	1,423	1,256	518,761	-
Supervisory Board	750	122	2,768	39
Management Board	-	80	531	86
Other key persons with related parties	283	236	3,718	176
Legal entities in which the Bank has participating interest	-	-	-	-
Member of the Management Board of a Subsidiary	174	-	22	27
TOTAL	2,630	1,694	525,800	328

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

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

/ii/ Receivables and payables of related parties at 31 December 2021 are shown below:

				2021 in '000 HRK
Related parties	Loans and receivables	Contingent liabilities and commitments	Deposits and hybrids	Other liabilities
Related parties	1,765	1,269	620,348	4
Shareholders with over 5% of ordinary shares and their related parties	8	128	3,186	51
Supervisory Board	3	77	488	95
Management Board	290	183	1,981	143
Other key persons with related parties	27,463	-	-	-
Legal entities in which the Bank has participating interest	211	-	3	17
Member of the Management Board of a Subsidiary	29,740	1,657	626,006	310

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

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

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

Description	2022 HRK '000	2021 HRK '000
<i>Income</i>		
Shareholders with over 5% of ordinary shares and their related parties	9,577	11,667
Members of the Management Board and their related persons	3	5
Members of the Supervisory Board and their related persons	23	15
Other key persons with related parties	19	26
Legal entities in which the Bank has participating interest	1,274	-
Member of the Management Board of a Subsidiary	9	9
Total income	10,905	11,722
<i>Expenses</i>		
Shareholders with over 5% of ordinary shares and their related parties	367	1,642
Members of the Management Board and their related persons	1,027	1,089
Members of the Supervisory Board and their related persons	470	611
Other key persons with related parties	1,836	1,756
Legal entities in which the Bank has participating interest	4	4
Member of the Management Board of a Subsidiary	282	210
Total expenses	3,986	5,312

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

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

/iv/Remuneration to the Management Board and other key personnel are shown below:

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

Description	31 Dec 2022	31 Dec 2021
	HRK '000	HRK '000
Management Board		
Net salaries	581	602
Taxes and contributions	445	472
Total:	<u>1,026</u>	<u>1,074</u>
Other key personnel		
Net salaries	1,272	1,142
Taxes and contributions	845	763
Total:	<u>2,117</u>	<u>1,905</u>
Total	<u>3,143</u>	<u>2,979</u>

41. Interest risk

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

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

41. Interest risk - continued

2022	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	Interest free	TOTAL
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash	1,012,166	-	-	-	-	-	1,012,166
Receivables from CNB	-	-	-	-	-	64,913	64,913
Placements with banks	68,521	92,387	8,211	-	-	-	169,119
Financial assets through other comprehensive income	-	-	-	-	-	149	149
Financial assets at amortised cost	-	-	171,530	71,272	477,745	-	720,547
Financial assets valued at fair value	-	-	-	-	-	52	52
Loans and advances to customers	368,135	447,322	163,904	156,197	161,069	-	1,296,627
Investments in subsidiary	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	22,912	22,912
Intangible assets	-	-	-	-	-	128	128
Foreclosed assets and investment property	-	-	-	-	-	17,609	17,609
Other assets	-	-	-	-	-	3,325	3,325
Total assets	1,448,822	539,709	343,645	227,469	638,814	109,088	3,307,547
LIABILITIES							
Liabilities to banks	1	-	-	-	-	-	1
Demand deposits	753	-	1,329,189	839,679	-	-	2,169,621
Term deposits	100,133	157,806	484,366	75,332	-	-	817,637
Hybrid instruments	-	-	10,380	-	-	-	10,380
Liabilities on loans received	-	-	-	-	-	1,272	1,272
Other liabilities	-	-	-	-	-	24,404	24,404
Provisions	-	-	-	-	-	5,911	5,911
Other liabilities	100,887	157,806	1,823,935	915,011	-	31,587	3,029,226
CAPITAL							
Share capital	-	-	-	-	-	176,678	176,678
Profit for the year	-	-	-	-	-	46,382	46,382
Retained profit /(loss)	-	-	-	-	-	55,261	55,261
Total capital	-	-	-	-	-	278,321	278,321
Total liabilities and capital	100,887	157,806	1,823,935	915,011	-	309,908	3,307,547
Net assets/liabilities and capital	1,347,935	381,903	(1,480,290)	(687,542)	638,814	(200,820)	-

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

41. Interest risk - continued

2021	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	Interest free	TOTAL
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash	-	-	-	-	-	908,311	908,311
Receivables from CNB	-	-	155,833	-	-	-	155,833
Placements with banks	33,882	68,064	306	-	-	-	102,252
Financial assets through other comprehensive income	-	-	-	-	-	149	149
Financial assets at amortised cost	24,075	52,090	276,083	136,679	186,352	-	675,279
Financial assets valued at fair value	-	-	-	-	-	10,811	10,811
Loans and advances to customers	287,257	441,778	144,435	151,612	149,380	-	1,174,462
Investments in subsidiary	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	21,819	21,819
Intangible assets	-	-	-	-	-	15	15
Foreclosed assets and investment property	-	-	-	-	-	25,674	25,674
Other assets	-	-	-	-	-	26,829	26,829
Total assets	345,214	561,932	576,657	288,291	335,732	993,608	3,101,434
LIABILITIES							
Liabilities to banks	-	-	-	-	-	18	18
Demand deposits	496	-	1,965,659	-	-	-	1,966,155
Term deposits	104,871	175,427	490,912	92,121	10,382	-	873,713
Hybrid instruments	-	-	10,379	-	-	-	10,379
Liabilities on loans received	-	98	294	781	487	-	1,660
Other liabilities	-	-	-	-	-	12,228	12,228
Provisions	-	-	-	-	-	5,342	5,342
Other liabilities	105,367	175,525	2,467,244	92,902	10,869	17,588	2,869,495
CAPITAL							
Share capital	-	-	-	-	-	176,678	176,678
Unrealised profit/loss from impaired financial assets through other comprehensive income	-	-	-	-	-	-	-
Reserves	-	-	-	-	-	1,851	1,851
Profit for the year	-	-	-	-	-	25,017	25,017
Retained profit /(loss)	-	-	-	-	-	28,393	28,393
Total capital	-	-	-	-	-	231,939	231,939
Total liabilities and capital	105,367	175,525	2,467,244	92,902	10,869	249,527	3,101,434
Net assets/liabilities and capital	239,847	386,407	(1,890,587)	195,389	324,863	744,081	-

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

41. Interest risk - continued

The table below summarizes effective interest rates for interest bearing assets and liabilities:

	2022	2021
	%	%
Assets		
Receivables from CNB	-0,7-0	-0,7-0
Placements with banks	-0,6-4,83	-0,6-0,25
Financial assets through OCI	-	-
Financial assets at amortised cost	-0,10-6,00	-0,06-6,5
Loans and advances to customers	1,96-8,59	1,6-8,70
Liabilities		
Liabilities to banks (HBOR)	0,00	0,00
Demand deposits	0,00-0,01	0,00-01
Term deposits	0,00-2,85	0,00-2,85

42. Fair value of financial assets and liabilities

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

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

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

44. Liquidity risk

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

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

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

44. Liquidity risk - continued

The remaining maturity of the Bank's assets and liabilities as at 31 December 2022 is shown below:

2022	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	TOTAL
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS						
Cash	1,012,166	-	-	-	-	1,012,166
Receivables from CNB	43,296	21,617	-	-	-	64,913
Placements with banks	68,521	92,387	8,211	-	-	169,119
Financial assets through OCI	-	-	-	-	149	149
Financial assets at amortised cost	-	-	171,530	71,272	477,745	720,547
Financial assets at fair value (FOB and FOP)	52	-	-	-	-	52
Loans and advances to customers	368,135	447,322	163,904	156,197	161,069	1,296,627
Investments in subsidiary	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	22,912	22,912
Intangible assets	-	-	-	-	128	128
Foreclosed assets and investment property	-	-	-	-	17,609	17,609
Other assets	3,325	-	-	-	-	3,325
Total assets	1,495,495	561,326	343,645	227,469	679,612	3,307,547
LIABILITIES						
Liabilities to banks	1	-	-	-	-	1
Demand deposits	2,169,621	-	-	-	-	2,169,621
Term deposits	90,790	163,202	474,478	77,844	11,323	817,637
Hybrid instruments	-	-	10,380	-	-	10,380
Liabilities on loans received	-	98	294	784	96	1,272
Other liabilities	24,011	40	184	169	-	24,404
Provisions	5,023	155	727	6	-	5,911
Total liabilities	2,289,446	163,495	486,063	78,803	11,419	3,029,226
CAPITAL						
Share capital	-	-	-	-	176,678	176,678
Unrealised profit/loss from impaired financial assets through other comprehensive income	-	-	-	-	-	-
Profit for the year	-	-	46,382	-	-	46,382
Retained profit/(loss)	-	-	-	-	55,261	55,261
Total capital	-	-	46,382	-	231,939	278,321
Total liabilities and capital	2,289,446	163,495	532,445	78,803	243,358	3,307,547
Net assets/liabilities and capital	(793,951)	397,831	(188,800)	148,666	436,254	-

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

44. Liquidity risk - continued

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

	Up to 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	TOTAL
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
2021						
ASSETS						
Cash	908,311	-	-	-	-	908,311
Receivables from CNB	155,833	-	-	-	-	155,833
Placements with banks	33,882	68,064	306	-	-	102,252
Financial assets through OCI	-	-	-	-	149	149
Financial assets at amortised cost	24,075	52,090	276,083	136,679	186,352	675,279
Financial assets at fair value (FOB and FOP)	10,811	-	-	-	-	10,811
Loans and advances to customers	287,257	441,778	144,435	151,612	149,380	1,174,462
Investments in subsidiary	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	21,819	21,819
Intangible assets	-	-	-	-	15	15
Foreclosed assets and investment property	-	-	-	-	25,674	25,674
Other assets	26,829	-	-	-	-	26,829
Total assets	1,446,998	561,932	420,824	288,291	383,389	3,101,434
LIABILITIES						
Liabilities to banks	18	-	-	-	-	18
Demand deposits	1,966,155	-	-	-	-	1,966,155
Term deposits	104,721	175,454	489,883	92,784	10,871	873,713
Hybrid instruments	-	-	10,379	-	-	10,379
Liabilities on loans received	-	-	-	-	1,660	1,660
Other liabilities	12,225	-	-	3	-	12,228
Provisions	4,551	42	731	2	16	5,342
Total liabilities	2,087,670	175,496	500,993	92,789	12,547	2,869,495
CAPITAL						
Share capital	-	-	-	-	176,678	176,678
Unrealised profit/loss from impaired financial assets through other comprehensive income	-	-	-	-	-	-
Reserves	-	-	-	-	1,851	1,851
Profit for the year	-	-	25,017	-	-	25,017
Retained profit/(loss)	-	-	-	-	28,393	28,393
Total capital	-	-	25,017	-	206,922	231,939
Total liabilities and capital	2,087,670	175,496	526,010	92,789	219,469	3,101,434
Net assets/liabilities and capital	(640,672)	386,436	(105,186)	195,502	163,920	-

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

45. Credit risk

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

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

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

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

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

	31 Dec 2022	31 Dec 2021
	HRK'000	HRK'000
Current accounts with CNB and other banks	964,175	857,915
Receivables from CNB	64,913	155,833
Placements with banks	169,119	102,252
Financial assets through other comprehensive income	149	149
Financial assets at amortised cost	720,547	675,279
Financial assets at fair value through profit or loss	52	10,811
Loans and advances to customers	1,296,627	1,174,462
Other assets	3,325	26,829
Total	3,218,907	3,003,530

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

	31 Dec 2022	31 Dec 2021
	HRK'000	HRK'000
Guarantees	47,661	46,487
Unused placements and other	348,553	313,014
Total	396,214	359,501
Reserves	(5,060)	(4,647)
Total off-balance	391,154	354,854
Total exposure to credit risk	3,610,061	3,358,384

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

45. Credit risk - continued

In the table above the Bank's highest exposure to credit risk is stated as at 31 December 2022 and 31 December 2021, without collaterals taken into consideration. Balance sheet records stated in the table above are presented at net carrying value less provisions for impairment, as shown in the balance sheet. Off-balance sheet records are based on the approved amounts, except for the undrawn portions of authorized loans and limits on credit cards which are based on the undrawn approved amounts.

35.92% (2021: 34.97%) of the highest exposure to credit risk arises from loans and receivables from banks and clients. Undrawn portions of authorized loans, credit card limits and other items represent 9.66% (2021: 9.32%) of the Bank's total exposure.

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

- 94% (2021: 90.3%) of loans and receivables from clients are classified in the risk category A,
- 93% (2021: 89%) of gross loans and receivables from clients are loans that are not yet due and not 6.35% (2021: 9.63%) of gross loans and receivables from clients are classified as impaired loans.

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

Impairment

Classification	31 Dec 2022		31 Dec 2021	
	Loans and receivables from customers	Impairment provisions	Loans and receivables from customers	Impairment provisions
A	1,281,358	19,252	1,139,376	16,583
B1	17,996	1,235	36,052	5,914
B2	24,124	9,918	19,132	7,537
B3	17,375	13,822	46,945	37,009
C	22,428	22,427	20,786	20,786
Total	1,363,281	66,654	1,262,291	87,829

- Provisions for impairment of loans and receivables from clients classified in the risk category A relate to general provision,
- Provisions for impairment stated as a percentage of gross loans and receivables from clients amount to 4.89% (2021: 6.99%),
- Decrease in provisions during 2021 was a result of the collection of risk placements and reallocation of part of the risk category B3 and C portfolio to off-balance sheet records.

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

45. Credit risk - continued

Uncertainty related to the valuation of property collateral

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

Rescheduled loans and receivables

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

Loans and receivables from customers: impact analysis

<i>Granted loans</i>	31 Dec 2022 HRK'000	31 Dec 2021 HRK'000
Unmatured and unimpaired	1,267,164	1,125,829
Matured and unimpaired	9,554	13,547
Impaired loans	86,563	122,915
Gross total	1,363,281	1,262,291
Provisions for impairment	(66,654)	(87,829)
Net amount	1,296,627	1,174,462

The Bank's total provision for impairment of loans and receivables from clients amounts to HRK 66,654 thousand (2021: HRK 87,829 thousand), of which HRK 47,402 thousand (2021: HRK 71,246 thousand) refers to specific provisions for impairment, while the remaining HRK 19,252 thousand refers to the general provisions (HRK 16,583 thousand in 2021).

a) Unmatured and unimpaired loans and receivables from customers

Unmatured and unimpaired loans and receivables from customers are being monitored regularly and reviewed in detail for the purpose of early detection of any irregularities or warning signs in order to take timely actions.

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

45. Credit risk - continued

a) Matured and unimpaired loans and receivables from customers

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

Description	31 Dec 2022 HRK'000	31 Dec 2021 HRK'000
Due within 30 days	7,643	11,241
Due in 31-60 days	1,242	1,461
Due in 61-90 days	669	845
TOTAL	9,554	13,547

It is not practical to show estimated collateral values.

c) Impaired loans and receivables from customers

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

Description	31 Dec 2022 HRK'000	31 Dec 2021 HRK'000
Gross impaired loans	81,923	122,915
Impairment	(47,402)	(71,246)
Net impaired loans	34,521	51,669

It is not practical to show estimated collateral values.

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

46. Market risk

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

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

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

46.1. Currency risk

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

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

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

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

46.1. Currency risk

Foreign currency assets and liabilities of the Bank as at 31 December 2022 are shown below:

2022	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash	38,209	2,408	20,918	-	61,535	950,631	1,012,166
Receivables from CNB	-	-	-	-	-	64,913	64,913
Placements with banks	4,106	153,304	11,709	-	169,119	-	169,119
FVOCI	-	-	-	-	-	149	149
Financial assets at amortised cost	110,621	25,177	-	218,203	354,001	366,546	720,547
Financial assets at fair value (FOB AND FOP)	-	-	-	-	-	52	52
Loans and advances	2,017	-	-	859,285	861,302	435,325	1,296,627
Investments into subsidiary	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	22,912	22,912
Intangible assets	-	-	-	-	-	128	128
Foreclosed assets and investment property	-	-	-	-	-	17,609	17,609
Other assets	494	-	-	1,116	1,610	1,715	3,325
Total assets	155,447	180,889	32,627	1,078,604	1,447,567	1,859,981	3,307,547
LIABILITIES							
Liabilities to banks	-	-	-	-	-	1	1
Demand deposits	710,594	165,068	26,302	-	901,964	1,267,657	2,169,621
Term deposits	531,440	16,054	5,638	-	553,132	264,505	817,637
Hybrid instruments	-	-	-	-	-	10,380	10,380
Loan liabilities	-	-	-	1,272	1,272	-	1,272
Other liabilities	880	-	-	-	880	23,524	24,404
Provisions	-	-	-	-	-	5,911	5,911
Total liabilities	1,242,914	181,122	31,940	1,272	1,457,248	1,571,978	3,029,226
CAPITAL							
Share capital	-	-	-	-	-	176,678	176,678
Unrealised profit/loss from impaired financial assets held for sale	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	46,382	46,382
Reserves and retained earnings	-	-	-	-	-	55,261	55,261
Total capital	-	-	-	-	-	278,321	278,321
Total liabilities and capital	1,242,914	181,122	31,940	1,272	1,457,248	1,850,299	3,307,547
Net assets/liabilities and capital	(1,087,467)	(233)	687	1,077,332	(9,681)	9,681	-

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2022

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

Foreign currency assets and liabilities of the Bank as at 31 December 2021 are shown below:

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

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

46.1. Currency risk - continued

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

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

46.2. Interest rate risk

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

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

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

Short term focus

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

Long term focus

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

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

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

46.3. Securities price risk

Objectives of investments in investment portfolio are:

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

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

46.3. Securities price risk - continued

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

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

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

46.4. Concentration risk

Concentration risk is managed through:

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

With regard to the set limits on concentration risk, the limit for investing in bonds was not exceeded at the end of 2022.

47. Operational risk

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

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

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

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

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

48. Fair value of financial instruments

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

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

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

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation method and main input data
	31 December 2022	31 December 2021		
1) Listed shares in investment funds (note 23)		<i>Listed securities</i> – shares in investment funds – HRK 10,738 thousand (book value = HRK 11,305 thousand)	Level 1	Market price model – published share price on the day of the valuation
2) Shares in joint-stock companies (note 23)	<i>Listed securities 0.240 % of shares of Varteks dd – HRK 52 thousand (book value = HRK 120 thousand)</i>	<i>Listed securities 0.293 % of shares of Varteks dd –HRK 96 thousand (book value = HRK 120 thousand)</i>	Level 1	Fair value estimation model – market price model
3) Shares in joint-stock companies (note 23)	<i>Listed shares of Vis d.d. – HRK 0.00 kn (1.222% of share capital) – nominal value HRK 741 thousand</i>	<i>Listed shares of Vis d.d. - HRK 0.00 (1.64% of share capital)- nominal value HRK 741 thousand</i>	Level 3	Market price model – no trading for longer
4) Shares in limited liability companies (note 21)	<i>Unlisted shares 1.04 % of shares of HROK HRK 141 thousand</i>	<i>Unlisted shares 1.04 % of shares of HROK HRK 141 thousand</i>	Level 3	Book value at cost of acquisition
5) Shares in joint-stock companies (note 21)	<i>Unlisted shares 0.08 % of shares of SKDD d.d. – HRK 8 thousand</i>	<i>Unlisted shares 0.08 % of shares of SKDD d.d. – HRK 8 thousand</i>	Level 3	Book value at cost of acquisition

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

48. Fair value of financial instruments - continued

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

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

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

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

Level 3 of indicators – indicators derived using valuation methods in which the input data are not based on available market data (unobservable inputs).

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

	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
2022				
Financial assets through other comprehensive income	-	-	149	149
Financial assets required at fair value through profit or loss	52	-	-	52
2021				
Financial assets through other comprehensive income	-	-	149	149
Financial assets required at fair value through profit or loss	10,811	-	-	10,811

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

49. Auditor's fee

The auditors of the Bank's annual financial reports provided services which amounted to HRK 240 thousand plus VAT in 2022 (2021: HRK 205 thousand plus VAT). The aforementioned services included audit of annual financial statements, audit for the CNB and audit of the IT system.


50. Events after the Balance Sheet date

After the balance sheet date, in accordance with the Law on the introduction of the euro as the official currency in the Republic of Croatia, the euro was introduced as the official currency in the Republic of Croatia. The financial statements for 2022 have been prepared in HRK as the functional and reporting currency, which was valid until 31 December 2022, while the financial statements of future periods will be drawn up in euros as the new functional and reporting currency.

Besides this, there were no events after the Balance Sheet date, which would significantly affect the Bank's annual financial statements for 2022, and should therefore be published.

51. Approval of the financial statements

The financial statements were adopted by the Management Board and approved for publication on 6 March 2023.



Željka Surač
President of the
Management Board



Marino Rade
Member of the
Management Board



Stjepan Oreški
Member of the
Management Board



Other data according to Article 164 of the Credit Institutions Act

The Bank's registered activity is defined by Article 7 of the current Bank Statute:

- receiving deposits or other refunds
- approval of credits and loans, including consumer credits and loans and mortgage credits and loans if permitted by a special law, financing of commercial transactions, including export financing based on the purchase with a discount and without recourse of long-term non-due receivables secured by financial instruments (forfeiting)
- purchase of receivables with or without recourse (factoring)
- issuance of guarantees or other warranties
- trading for own account or for the client's account (money market instruments, transferable securities, foreign means of payment including exchange transactions, financial promissory notes and options, currency and interest instruments)
- payment services in accordance with special laws,
- services related to lending activities, such as, for example, collecting data, making analyses and providing information on the creditworthiness of legal and natural persons who perform the activity independently,
- issuance of other payment instruments and their management if the provision of these services is not considered the provision of payment services in accordance with special laws
- rental of safety deposit boxes.

In 2022, based on the Regulation on the elimination of disturbances in the domestic energy market (Official Gazette 104/229), the Bank received HRK 83,000 in support in the form of a reduction in the price of supplied thermal energy.

During 2022, Karlovačka banka achieved a total income of HRK 120,378 thousand.

The number of employees on a full-time equivalent basis was 159 employees.

The gross profit for the year 2022 is HRK 56,208 thousand, the current liability for income tax is HRK 9,751 thousand, and the effects of deferred tax are HRK 75 thousand.

Karlovačka banka d.d. does not have branches in EU member states or in third countries, i.e. it operates exclusively on the territory of the Republic of Croatia.

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

Annual financial statements of Karlovačka banka d.d. as prescribed by the Croatian National Bank by the Decision on structure and content of annual financial statements of credit institutions (Official Gazette no. 42/2018 and amendments in Official Gazette no. 122/2020, 119/2021 and 108/2022) are shown below:

- Income statement for 2022
- Statement of other comprehensive income for 2022
- Balance Sheet as at 31 December 2022
- Statement of cash flows for 2022
- Statement of changes in equity for 2022

The financial information presented in the following financial statements (hereinafter "the CNB Report") were derived from financial statements shown on pages 27-100 (hereinafter "the 'Basic financial statements'").

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

Appendix A - Other legal and regulatory requirements

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

INCOME STATEMENT FOR 2022

Description	2022	2021
	HRK '000	HRK 000
Interest income	58,285	53,951
(Interest expenses)	(1,303)	(3,430)
Expenditure of the share capital which is returned on demand	-	-
Dividend income	-	-
Income from fees and commissions	27,540	25,696
(Expenses from fees and commissions)	(8,193)	(7,220)
Profit/(loss) on derecognition of fin. assets and liabilities that are not measured at fair value through profit or loss	-	272
Gains/(losses) on financial assets and financial liabilities held for trading, net	14,924	14,846
Gains/(losses) on non-traded financial assets that are mandatorily measured at fair value through profit or loss, net	(373)	(528)
Exchange differences (profit or (-) loss), net	(683)	(180)
Other operating income	204	324
(Other operating expenses)	(236)	(150)
Total operating income (net)	<u>90,165</u>	<u>83,581</u>
(Administrative expenses)	(44,084)	(41,410)
(Contributions in cash to resolution committees and deposit insurance systems)	(2,566)	(16)
(Depreciation)	(3,221)	(3,938)
(Provisions or (-) cancellation of provisions)	(448)	(1,624)
(Impairment of value or (-) cancellation of impairment for fin. assets that are not measured at fair value through profit or loss)	14,907	(3,281)
(Impairment or (-) cancellation of impairment on non-financial assets)	(573)	(972)
Pre-tax profit or (loss) from continuing operations	54,180	32,340
Tax expense or (-) income from continuing operations	(9,486)	(2,199)
Profit or (-) loss after tax from continuing operations	<u>44,694</u>	<u>30,141</u>
Profit or (-) loss before tax for discontinued operations	1,688	(5,124)
Tax expenses or (-) income related to discontinued operations	2,028	-
Profit or (-) loss after tax from discontinued operations	<u>(340)</u>	<u>(5,124)</u>
Profit or (-) loss of the current year	<u>46,382</u>	<u>25,017</u>
Attributable to minority interest (non-controlling shares)	-	-
Attributable to equity holders	<u>46,382</u>	<u>25,017</u>

Appendix A - Other legal and regulatory requirements

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

Description	2022	2021
	HRK '000	HRK '000
Profit or (-) loss for the year	46,382	25,017
Other comprehensive income	-	-
Items not to be reclassified as profit or loss	-	-
Tangible assets	-	-
Intangible assets	-	-
Actuarial gains or (-) losses on sponsored pension plans	-	-
Fixed assets and disposal groups intended for sale	-	-
Share of other recognised income and expense from entities accounted for using the equity method	-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive income	-	-
Net profit or (-)loss from accounting hedging of equity instruments valued at fair value through other comprehensive income	-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive income (hedged item)	-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive income (hedged instrument)	-	-
Changes in fair value of financial liabilities valued at fair value through profit or loss that are attributable to changes in credit risk	-	-
Income tax referring to items that will not be reclassified	-	-
Items that may be reclassified as profit or loss	-	-
Hedging of net investments in foreign operations (effective portion)	-	-
Foreign currency exchange	-	-
Cash flow protection (effective portion)	-	-
Hedging instruments (elements not specified)	-	-
Debt instruments at fair value through other comprehensive income	-	-
Fixed assets and disposal groups intended for sale	-	-
Portion of other recognised income and expense from investments into subsidiaries, joint ventures and associates	-	-
Income tax referring to items that may be reclassified as profit/(loss)	-	-
Total comprehensive income for the year	46,382	25,017
Attributable to minority interest (non-controlling interest)	-	-
Attributable to equity holders	-	-

Appendix A - Other legal and regulatory requirements

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

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2022

Description	31 Dec 2022 HRK '000	31 Dec 2021 HRK '000
ASSETS		
Cash, receivables and liabilities from central banks and other demand deposits	1,012,166	908,311
Cash in hand	47,991	50,396
Cash receivables and liabilities from central banks	949,189	680,889
Other demand deposits	14,986	177,026
Financial assets held for trading	-	-
Financial assets that are not traded with and that are required to be measured at fair value through profit or loss	52	10,811
Equity instruments	52	10,811
Debt securities	-	-
Financial assets at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	149	149
Equity instruments	149	149
Financial assets at amortised cost	2,253,450	2,133,517
Debt securities	720,547	675,279
Loans and advances	1,532,903	1,458,238
Investments into subsidiaries, joint ventures and associates	-	-
Tangible assets	30,268	31,000
Property, plant and equipment	22,912	21,819
Investment property	7,356	9,181
Intangible assets	128	15
Tax assets	600	684
Other assets	480	454
Fixed assets and disposal groups intended for sale	10,254	16,493
Total assets	3,307,547	3,101,434
LIABILITIES		
Financial liabilities held for trading	-	-
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortisation cost	2,999,354	2,852,353
Deposits	2,998,789	2,851,803
Other financial liabilities	565	550
Provisions	5,911	5,342
Tax liabilities	8,295	421
Other liabilities	15,666	11,379
Total liabilities	3,029,226	2,869,495
EQUITY INSTRUMENTS		
Capital	176,678	176,678
Retained profit	52,159	28,393
Revaluation reserves	-	-
Other reserves	3,102	1,851
(-) Treasury shares	-	-
Profit or loss attributable to equity holders	46,382	25,017
Total equity instruments	278,321	231,939
Total equity instruments and total liabilities	3,307,547	3,101,434

Appendix A - Other legal and regulatory requirements

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

STATEMENT OF CASH FLOWS FOR 2022

Description	On the reporting date of the current period HRK '000	Same period last year HRK '000
1	3	4
Business activities according to the direct method		
Collected interest and similar receipts	-	-
Collected fees and commissions	-	-
(Paid interest and similar expenditure)	-	-
(Paid fees and commissions)	-	-
(Paid operating expenses)	-	-
Net profit / loss from financial instruments at fair value through profit or loss	-	-
Other receipts	-	-
(Other expenditure)	-	-
Business activities according to the indirect method		
Profit/(loss) before tax	56,208	27,216
Adjustments:		
Impairments and provisions	(13,765)	5,864
Depreciation	3,221	3,938
Net unrealised (profit)/loss from financial assets and liabilities at fair value through profit or loss	373	528
(Profit)/loss from sale of tangible assets	-	-
Other non-monetary items	-	-
Changes in assets and liabilities from operations		
Deposits with CNB	90,939	(14,451)
Deposits with and loans to financial institutions	163	(267)
Loans and advances to other customers	(107,759)	(3,493)
Securities and other financial instruments at fair value through other comprehensive income	-	1
Securities and other financial instruments held for trading	-	-
Securities and other financial instruments that are not actively traded with and are valued at fair value through profit or loss	-	-
Securities and other financial instruments required to be measured at fair value through profit or loss	10,387	108
Securities and other financial instruments at amortised cost	(46,793)	(114,210)
Other assets from operating activities	23,447	(15,767)
Deposits from financial institutions	(17)	17

Appendix A - Other legal and regulatory requirements

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

**STATEMENT OF CASH FLOWS FOR 2022
- continued**

Description	On the reporting date of the current period HRK '000	Same period last year HRK '000
1	3	4
Transaction accounts of other customers	186,682	446,478
Savings deposits of other customers	16,790	76,573
Term deposits of other customers	(55,815)	(49,038)
Derivative financial liabilities and other liabilities held for trading	-	-
Other liabilities from operating activities	12,792	(326)
Interest collected from operating activities [indirect method]	1,276	13,012
Dividends received from operating activities [indirect method]	-	-
Interest paid from operating activities [indirect method]	(267)	(1,303)
(Income tax paid)	(9,827)	(2,199)
Net cash flow from operating activities	168,035	372,681
Investing activities		
Receipts from sales / (payments) for the purchase of tangible and intangible assets	3,064	(1,575)
Receipts from sales / (payments) for the purchase of investments in subsidiaries, associates and joint ventures	-	-
Receipts from collections / (payments) for the purchase of securities and other financial instruments held to maturity	-	-
Dividends received from investing activities	-	-
Other receipts / (payments) from investing activities	-	-
Net cash flow from investment activities	3,064	(1,575)
Financing activities		
Net increase/(decrease) in received loans from financial activities	(387)	(412)
Net increase /(decrease) in issued debt securities	-	-
Net increase /(decrease) in supplementary capital instruments	-	(43,458)
Increase in share capital	-	-
(Dividend paid)	-	-
Other receipts/(payments) from financing activities	-	366

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

**STATEMENT OF CASH FLOWS FOR 2022
- continued**

Description	On the reporting date of the current period HRK '000	Same period last year HRK '000
1	3	4
Net cash flows from financing activities	(387)	(43,504)
Net increase/(decrease) in cash and cash equivalents	170,712	327,602
Cash and cash equivalents at the beginning of the year	1,006,467	678,865
Effects of changes in foreign exchange rates on cash and cash equivalents	-	-
Cash and cash equivalents at the end of the year	1,177,179	1,006,467

Appendix A - Other legal and regulatory requirements

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

STATEMENT OF CHANGES IN EQUITY IN 2022															
No.	Sources of changes in capital	Capital	Share premium	Issued equity instruments other than equity	Other equity items	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or (-) loss attributable to equity holders of the parent	Dividends during the year	Minority share		Total
													Accumulated other comprehensive income	Other items	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1.	Opening balance [before adjustment]	176,678	-	-	-	-	28,393	-	1,851	-	25,017	-	-	-	231,939
2.	Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.	Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	Opening balance [current year]	176,678	-	-	-	-	28,393	-	1,851	-	25,017	-	-	-	231,939
5.	Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.	Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7.	Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8.	Execution or expiration of other issued equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix A - Other legal and regulatory requirements

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

		STATEMENT OF CHANGES IN EQUITY IN 2022											Total		
No.	Sources of changes in capital	Capital	Share premium	Issued equity instruments other than equity	Other equity items	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or (-) loss attributable to equity holders of the parent	(-) Dividends during the year	Accumulated other comprehensive income	Other items	Total
		3	4	5	6	7	8	9	10	11	12	13	14	15	
	1	3	4	5	6	7	8	9	10	11	12	13	14	15	16
9.	Conversion of receivables into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10.	Reduction of capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.	Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.	Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13.	Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.	Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16.	Transfers between components of equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix A - Other legal and regulatory requirements

ADDITIONAL REPORTS ACCORDING TO THE DECISION OF THE CROATIAN NATIONAL BANK - continued
STATEMENT OF CHANGES IN EQUITY IN 2022

No.	Description	Attributable to equity holders of the parent										Minority share		Total	
		Capital	Share premium	Issued equity instruments other than equity	Other equity items	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or (–) loss attributable to equity holders of the parent	Dividends during the year	Accumulated other comprehensive income		Other items
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
17.	Increase or (–) decrease in equity from business mergers														
18.	Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19.	Other increase or (–) decrease in equity	-	-	-	-	-	23,767	-	1,250	-	(25,017)	-	-	-	-
20.	Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	46,382	-	-	-	46,382
21.	Closing balance (current year)	176,678	-	-	-	-	52,160	-	3,101	-	46,382	-	-	-	278,321

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

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

A) RECONCILIATION OF THE INCOME STATEMENT FOR 2022

Description	CNB Decision 2022	Basic financial statements 2022	Difference	Explanatory note
	HRK '000	HRK '000	HRK '000	
Interest income	58,285	58,298	(13)	1
(Interest expenses)	(1,303)	(1,303)	-	
Income from fees and commissions	27,540	27,540	-	
(Fees and commissions expenses)	(8,193)	(8,193)	-	
Profit/(loss) on derecognition of financial assets and liabilities that are not valued at fair value profit or loss	-	-	-	
Profit/(loss) on financial assets and liabilities held for trading, net	14,924	-	14,924	2
Profit/(loss) on financial assets that are not traded with and that are valued at fair value through profit or loss, net	(373)	-	(373)	2
Profit/(loss) on financial assets and liabilities at fair value through profit or loss, net	-	-	-	2
Profit from financial operations	-	14,551	(14,551)	2
Profit/(loss) from accrued exchange rate differences	(683)	(697)	14	1
Other operating income	204	205	1	3
(Other operating expenses)	(236)		(236)	3
Total operating income (net)	90,165			
General administrative and other operating expenses		(49,986)	49,986	3
(Impairment and provision costs)		13,765	(13,765)	4
(Administrative expenses)	(44,084)		(44,084)	3
(Contributions in cash to resolution committees and deposit insurance systems)	(2,566)		(2,566)	3
(Depreciation)	(3,221)		(3,221)	3
(Provisions or (-) termination of provisions)	(448)		(448)	4
(Impairment or (-) termination of impairment of financial assets that are not valued at fair value through profit or loss	14,907		14,907	4
(Impairment or (-) termination of impairment of non-financial assets)	(573)		(573)	4
Profit/(loss) before tax from continuing operations	54,180	54,180	-	
Tax expense from continuing operations	(9,486)	(9,486)	-	
Profit/(loss) after tax from continuing operations	44,694	44,694	-	
Profit or (-) loss before tax from discontinued operations	2,028	2,028	-	
(Tax expenses) related to discontinued operations	(340)	(340)	-	
Profit/(loss) after tax from discontinued operations	1,688	1,688	-	
Profit/(loss) for the year	46,382	46,382	-	

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

A) RECONCILIATION OF THE INCOME STATEMENT FOR 2022 – EXPLANATORY NOTES

1. According to the CNB'S Decision, *Interest income* and *Interest expenses* items do not include the net result of foreign exchange interest gains which amounted to HRK 13 thousand in 2022, but this effect is reported in the Basic financial statements under Profit/(loss) from accrued foreign exchange differences.
2. In the report in accordance with the CNB'S Decision, Profit/(loss) from financial assets in the amount of HRK 14,551 thousand is presented in several items, depending on the portfolio, while in the Basic financial statements the net financial operations effect is presented in one item in total – *Profit from financial operations* and is detailed in the accompanying notes (Note 8).
3. *General administrative expenses*, presented in Basic financial statements in the amount of HRK 49,986 thousand (Notes 11, 12, 13) in the CNB report are stated in separate items *Administrative expenses* in the amount of HRK 44,084 thousand, *Contributions in cash to insurance systems* in the amount of HRK 2,566 thousand, *Depreciation* in the amount of HRK 3,221 thousand, *Other expenses* in the amount of HRK 236 thousand. According to the CNB Decision, *Administrative expenses* also include net income from provisions for employees,
4. In the report in accordance with the CNB'S Decision, *Impairment, provisions and termination of provisions* are presented in three separate items in the total amount of HRK 13,886 thousand. In the Basic financial statements *Impairment and provision costs* amount to HRK 13,765 thousand. The difference of HRK 121 thousand relates to the net effect of the provision for employees which are included within *Administrative expenses (net HRK 121 thousand)* in the report in accordance with the CNB's Decision and individual write-offs which are presented in the Basic financial reports under item Other operating expenses (HRK 1 thousand).

Appendix A - Other legal and regulatory requirements

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

B) RECONCILIATION OF THE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR 2022

	CNB Decision 2022	Basic financial statements 2022	Difference
Description	HRK '000	HRK '000	
Profit or (-) loss for the year	-	-	-
Other comprehensive income	-	-	-
Items not to be reclassified into profit or loss	-	-	-
Tangible assets	-	-	-
Intangible assets	-	-	-
Actuarial gain or (-) losses on sponsored pension plans	-	-	-
Fixed assets and disposal groups intended for sale	-	-	-
Share of other recognised income and expense from entities that is calculated using the equity method	-	-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive income	-	-	-
Gains/(losses) from accounting protection of equity instruments valued at fair value through other comprehensive income	-	-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive income (protected item)	-	-	-
Changes in fair value of financial liabilities valued at fair value through profit/(loss) attributed to changes in credit risk	-	-	-
Income tax related to items that will not be reclassified	-	-	-
Items that may be reclassified into profit or loss	-	-	-
Protection of net investments in foreign operations (effective portion)	-	-	-
Conversion of foreign currencies	-	-	-
Protection of cash flows (effective portion)	-	-	-
Hedging instruments (elements which are not specified)	-	-	-
Debt instruments at fair value through other comprehensive income	-	-	-
Fixed assets and disposal groups intended for sale	-	-	-
Portion of other recognised income and expense from investments into subsidiaries, joint ventures and associates	-	-	-
Income tax relating to items that may be reclassified to profit /(loss)	-	-	-
Total comprehensive income for the year	46,382	46,382	-

Appendix A - Other legal and regulatory requirements

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

C) RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION – BALANCE SHEET AS AT 31 DECEMBER 2022

Item	CNB Decision HRK '000	Basic financial statements HRK '000	Difference HRK '000	Explanatory note
ASSETS				
Cash, receivables from central banks and other demand deposits	1,012,166			
<i>Cash</i>		1,012,166	(1,012,166)	1
Cash in hand	47,991		47,991	1
Cash receivables from central banks	949,189		949,189	1
Other demand deposits	14,986		14,986	1
Receivables from CNB		64,913	(64,913)	2
Placements with banks		169,119	(169,119)	2
Financial assets held for trading	-	-	-	
Financial assets that are not traded with and that are valued at fair value through profit or loss	52	52	-	
Equity instruments	52	52	-	
Debt securities	-	-	-	
Financial assets at fair value through profit or loss	-	-	-	
Financial assets at fair value through other comprehensive income	149	149	-	
Equity instruments	149	149	-	
Financial assets at amortised cost	2,253,450	2,017,174		
Debt securities	720,547	720,547		
Loans and advances	1,532,903	1,296,627	236,276	2 i 3
Investments in subsidiaries, joint ventures and associates	-	-	-	
Tangible assets	30,268	22,912	7,356	4
<i>Property, plant and equipment</i>	22,912			
<i>Investment property</i>	7,356			
Intangible assets	128	128	-	
Tax assets	600	-	600	3
Other assets	480	3,325	(2,845)	2 i 3
Fixed assets and disposal groups classified for sale	10,254	17,609	(7,356)	4
Total assets	3,307,547	3,307,547	-	-
LIABILITIES				
Financial liabilities held for trading	-	-	-	
Financial liabilities at fair value through profit or loss	-	-	-	
Financial liabilities at amortised cost				
Liabilities to banks	-	1	(1)	5
Deposits	2,998,789	2,987,258	11,531	5
Loans received	-	1,272	(1,272)	5
Hybrid instruments		10,380	(10,380)	5
Other financial liabilities	565	-	565	5
Provisions	5,911	5,911	-	
Tax liabilities	8,295	-	8,295	5
Other liabilities	15,666	24,404	(8,738)	5
Total liabilities	3,029,226	3,029,226	-	-

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

C) RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION – BALANCE SHEET AS AT 31 DECEMBER 2022 - continued

	CNB Decision	Basic financial statements	Difference	Explanatory note
Item	HRK '000	HRK '000	HRK '000	
CAPITAL				
Share capital	176,678	176,678	-	
Retained profit (loss)	52,159	55,261	(3,102)	
Revaluation reserves	-	-		
Other reserves	3,102	-	3,102	
Profit (loss) for the year	46,382	46,382	-	
Statutory and other capital reserves	-	-		
Total capital	378,321	378,321	-	
Total liabilities and capital	3,307,547	3,307,547	-	

C) RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION – BALANCE SHEET AS AT 31 DECEMBER 2022 – EXPLANATORY NOTES

ASSETS

1. In the Basic financial statements, items reported under *Cash* are presented as *Cash in hand*, *Cash receivables from central banks* and *Other demand deposits* in the report according to the CNB's Decision.
2. In the Basic financial statements, *Receivables from CNB* and *Placements with banks* are disclosed separately, the amounts of which, in accordance with the CNB's Decision are among others included in *Financial assets at amortised cost – Loans and advances*. This item, according to the CNB's Decision also includes the majority of the assets which are included in *Other assets* in the Basic financial statements.
3. Item *Tax assets* in the Basic financial statements is stated under *Other assets*.
4. According to the CNB's Decision, *Investment property* is a separate item summarised under item *Tangible assets*, while in the Basic financial statements *Investment property* is presented under item *Foreclosed assets and investment property*

LIABILITIES AND CAPITAL

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

Appendix A - Other legal and regulatory requirements

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

D) RECONCILIATION OF THE CASH FLOW STATEMENT FOR 2022

	CNB Decision	Basic financial statements	Difference
Item	HRK '000	HRK '000	HRK '000
Operating activities according to the direct method			
Collected interest and similar receipts	-	-	
Collected fees and commissions	-	-	
(Paid interest and similar expenditure)	-	-	
(Paid fees and commissions)	-	-	
(Paid operating expenses)	-	-	
Net gains / losses from financial instruments at fair value through profit or loss	-	-	
Other receipts	-	-	
(Other expenditure)	-	-	
Business activities according to the indirect method			
Profit/(loss) before tax	56,208	56,208	-
Adjustments:			
Impairments and provisions	(13,765)	(13,765)	-
Depreciation	3,221	3,221	-
Net unrealised (profit)/loss from financial assets and liabilities at fair value through profit or loss	373	-	373
(Profit)/loss from the sale of tangible assets	-	-	
Other non-monetary items	-	-	-
Changes in assets and liabilities from operating activities			
Deposits with CNB	90,939	90,939	-
Deposits with and loans to financial institutions	163	(96)	259
Loans and advances to other customers	(107,759)	(107,795)	37
Securities and other financial instruments at fair value through other comprehensive income	-	-	-
Securities and other financial instruments held for trading	-	-	-
Securities and other financial instruments that are not actively traded with and that are valued at fair value through profit or loss	-	-	-
Securities and other financial instruments required at fair value through profit or loss	10,387	10,759	(372)
Securities and other financial instruments at amortised cost	(46,793)	(45,221)	(1,572)
Other assets from operating activities	23,447	23,447	-
Deposits from financial institutions	(17)	(17)	-
Transaction accounts of other customers	186,682	203,466	(16,784)
Savings deposits of other customers	16,790	-	16,790
Term deposits of other customers	(55,815)	(56,076)	261
Derivative financial liabilities and other liabilities that are traded with	-	-	-
Other liabilities from operating activities	12,792	12,792	-
Collected interest from operating activities [indirect method]	1,276	-	1,276

Appendix A - Other legal and regulatory requirements

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

D) RECONCILIATION OF THE CASH FLOW STATEMENT FOR 2022 - continued

	CNB Decision	Basic financial statements	Difference
Item	HRK '000	HRK '000	HRK '000
Dividends received from operating activities [indirect method]	-	-	-
Interest paid from operating activities [indirect method]	(267)	-	(267)
(Paid income tax)	(9,827)	(9,827)	-
Net cash flow from operating activities	168,035	168,035	-
Investing activities			
Receipts from sale /(payments) for the purchase of tangible and intangible assets	3,064	3,064	-
Receipts from sale / (payments) for the purchase of investments in subsidiaries, associates and joint ventures	-	-	-
Receipts from collections / (payments) for the purchase of securities and other financial instruments held to maturity	-	-	-
Dividends received from investing activities	-	-	-
Other receipts /(payments) from investing activities	-	-	-
Net cash flow from investing activities	3,064	3,064	-
Financing activities			
Net increase/(decrease) in loans received from financing activities			-
Net increase/(decrease) in issued debt securities	(387)	(387)	-
Net increase/(decrease) in supplementary capital instruments	-	-	-
Increase in share capital	-	-	-
(Dividend paid)	-	-	-
Other receipts/(payments) from financing activities	-	-	-
Net cash flow from financing activities	(387)	(387)	-
Net increase/(decrease) in cash and cash equivalents	170,712	170,712	-
Cash and cash equivalents at the beginning of the year	1,006,467	1,006,467	-
Effects of exchange rate changes on cash and cash equivalents	-	-	-
Cash and cash equivalents at the end of the year	1,177,179	1,177,179	-

D) RECONCILIATION OF THE CASH FLOW STATEMENT FOR 2022 - EXPLANATORY NOTES

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

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

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

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

E) RECONCILIATION OF THE STATEMENT OF EQUITY AND CHANGES IN EQUITY FOR 2022

There are no differences in the Statement of changes in equity.