J&T banka d.d.

Annual report for the year 2021

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J&T BANKA

Contents

Introduction

The annual report comprises a summary of operation and key financial indicators, a description of operation and the audited financial statements for the year ended 31 December 2021 together with the Independent Auditor's Report.

Legal status

The Annual Report includes annual financial statements prepared in accordance with accounting legislation applicable to banks in the Republic of Croatia, and audited in accordance with International Standards on Auditing.

The Annual Report has been prepared in accordance with the Accounting Act and Companies Act which requires the Management Board of an entity to report to shareholders at their annual General Assembly.

Abbreviations

In the Annual Report, J&T banka d.d. is referred to as 'the Bank' or 'J&T', the Croatian National Bank as 'CNB', the Republic of Croatia as 'the Government' and the Croatian Bank for Reconstruction and Development as 'CBRD'. Other abbreviations may be used in report are:

F/Ss - financial statements

SFP - statement of financial position

SPL - statement of profit and loss

OCI - other comprehensive income

CC – currency clause

GDP – gross domestic product

IAS – International accounting standards

IFRS - International Financial Reporting Standards

In this report, the abbreviations "HRK thousand", "HRK million" or "EUR thousand" and "EUR million" represent thousands and millions of Croatian kunas and euros.

Exchange rates

The following CNB middle exchange rates were used for translation of foreign currencies into Croatian kuna:

31 December 2021	EUR 1 = HRK 7.517174	USD 1 = HRK 6.643548
31 December 2020	EUR 1 = HRK 7.536898	USD 1 = HRK 6.139039

Macroeconomic environment and banking sector in the Republic of Croatia in 2021

Changes in global environment

The global economy in 2021 continued to recover from the crisis caused by the coronavirus pandemic, but with a gradual slowdown in growth due to increasingly pronounced disruptions in global supply chains. The speed of recovery in some countries depended mostly on economic policy measures aimed at mitigating the effects of the pandemic, but also on the success of controlling the infection. Thus, thanks to very strict control of the spread of coronavirus and strong fiscal support, economic activity in China returned to pre-pandemic trajectory in early 2021, after which it began to slow down due to supply chain disruptions and real estate problems.

The recovery of developed economies was largely due to population vaccination, which intensified in the second quarter, while in developing countries the recovery was slower. In addition to the negative impact on global industrial production and consumption, disruptions in supply chains have also contributed to strong increases in inflation globally. Monetary policy in most countries has remained highly accommodative, ensuring very favorable financing conditions, but some central banks have begun to announce faster monetary policy normalization or raise interest rates in response to growing inflationary pressures.

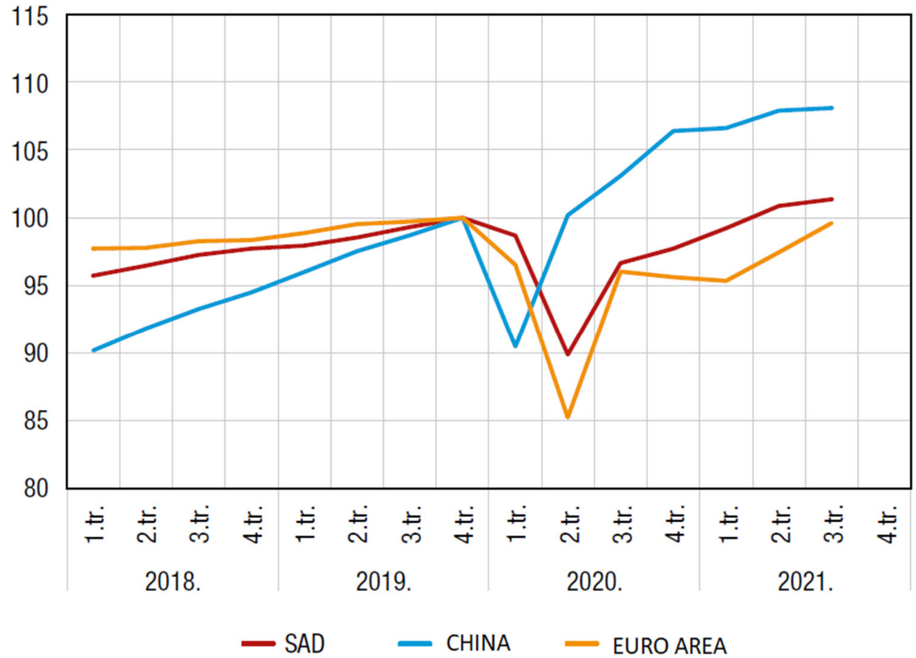
In the United States, strong growth continued in early 2021, thanks to generous fiscal support and successful population fragmentation that spurred the recovery of the service sector, bringing economic activity back to pre-crisis levels. However, during the summer months, when problems in global supply chains intensified, economic growth slowed markedly. This was mostly reflected in the reduction of personal consumption of durable goods and the weakening of merchandise exports. At the same time, investment activity remained relatively strong, despite continued uncertainty. Labor market conditions continued to improve, with the unemployment rate falling to 4.6% by the end of October, which is still above the pre-crisis level.

Disruptions in global supply chains accompanied by rising energy and raw material prices contributed to rising US inflation from 1.4% in January to 6.2% in October 2021, the most pronounced acceleration among large developed countries.

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

All the most important Croatian foreign trade partners continued to recover from economic activity in 2021, which was due, among other things, to a significant improvement in the epidemiological situation followed by the mitigation of measures. The economic recovery of some of the most important partners in the euro area, such as Italy, Austria and Germany, intensified only in the second quarter, while Slovenia's growth has been relatively strong since the beginning of the year. As for the foreign trade partners in the region of Southeast Europe, economic developments were even more favorable not only due to somewhat milder epidemiological measures but also due to less sensitivity to disturbances in global supply chains. By the end of September 2021, economic activity in Serbia had exceeded the pre-crisis level, and other countries, especially those dependent on tourism, continued to lag far behind the level of economic activity achieved before the crisis.

Graph 1: Economic growth of selected markets



Source: Eurostat; BEA; NBS; MMF

Changes in Croatia

Economic activity

The recovery of the Croatian economy after the collapse of economic activities caused by the COVID-19 pandemic in 2020, continued during 2021 with a certain slowdown at the end of the year. The favorable epidemiological situation during the third quarter of this year and significantly less restrictive measures to combat the pandemic compared to competing countries have contributed to exceptionally good economic performance. Current developments have been positively surprising, especially when it comes to exports of services and personal consumption.

In 2021, economic activity continued to grow, but at a lower intensity compared to the results from the previous part of the year. At the same time, industrial production increased, while real turnover from retail trade and construction activity remained at the level of the third quarter of the same year. During the fourth quarter of 2021, employment continued to grow and the number of unemployed decreased, so their values at the end of the year were more favorable than before the pandemic. Wage growth also continued to accelerate.

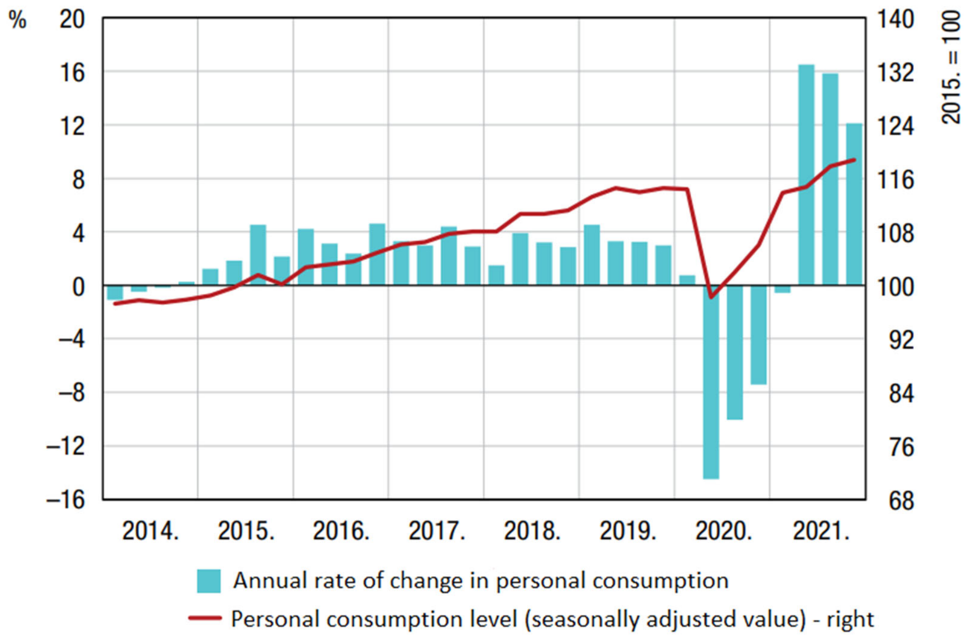
It is estimated that foreign demand is the main driver of economic growth throughout 2021. According to the first results of foreign trade of the Republic of Croatia, the total exports of the Republic of Croatia in the period I.- XII.2021. amounted to HRK 143.4 billion. At the same time, imports amounted to HRK 212.5 billion. The foreign trade deficit amounted to HRK 69.1 billion. The coverage of imports by exports was 69.1% (CBS press release).

During the pandemic, monetary aggregates increased significantly, mainly due to an increase in bank deposits and an increase in foreign exchange reserves. Deposits in banks increased by more than 11% on an annual basis and reached almost HRK 375 billion. Most of the growth was achieved through transaction deposits, as interest rates on time deposits are not sufficiently motivating to keep deposits in this segment. Most deposits are held by households, lower investment activity and a tendency to maintain liquidity have again encouraged companies to increase deposits.

Regarding loans in 2021, there was a slight increase in loans, with the majority of the growth coming from the population. Loans to companies and loans to the state increased slightly less, while the main initiator of growth in 2021 was local self-government. Most loans to households were housing loans, which are growing strongly for the second year in a row. There was also a slight recovery in non-housing loans by the end of 2021, which followed a recovery in consumer and labor market sentiment.

The biggest news in 2021 is the announcement by the Croatian authorities of the introduction of the euro in 2023. This has accelerated policy preparations, actions and efforts to meet all criteria in order to ensure a positive outcome of the evaluation of EU and ECB services by summer 2022.

Graph 2: Quarterly GDP



Source: DZS

Labor market

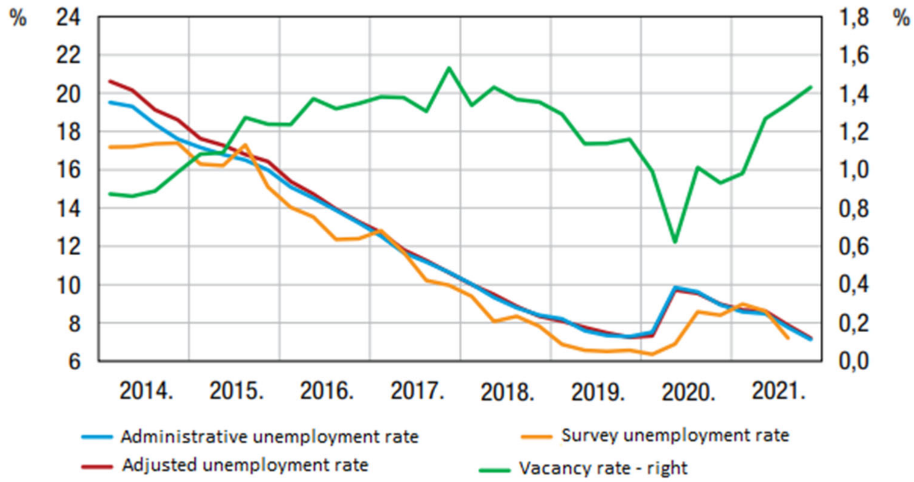
At the end of the second and the beginning of the third quarter of 2021, the recovery of employment continued under the influence of continued dynamization of economic activity in activities less affected by the crisis (such as information and communication and construction), as well as seasonal employment under the favorable epidemiological situation. More pronounced employment in tourism-related services began in June, later than usual, and continued in July, but at a lower intensity.

In the rest of the year, the seasonal oscillations (ie the decline in employment after reaching the peak) were also less pronounced. The strongest increase in the number of employees was recorded in the activities of information and communication and construction, while their number in the activities of serving accommodation and food preparation was still significantly lower. Compared to 2020, the number of insured persons has increased in most basic activities (exceptions are Mining and quarrying, Financial activities and Public administration and defense). The largest increase is visible in professional, scientific and technical activities, accommodation and food service activities and construction. Dominantly, the highest absolute growth is seen in construction, and in the ICT sector and education. On the other hand, the largest decline in the number of insured persons is visible in the activity of accommodation and food service, as well as in public administration and defense and compulsory social insurance. Due to the uneven growth of the number of insured persons by activities in the last two years, the construction activity became the third main activity with the largest number of insured persons, thus replacing the education activity.

The later beginning of the tourist season was also reflected in the movement of unemployment, with muted seasonal oscillations. After a more pronounced decrease in the number of unemployed by June 2021, there was a noticeable slowdown during July and August. As with employment, the seasonal increase in unemployment was less pronounced as the end of the year approached, and September was marked by stronger employment.

The continuation of the payment of aid for the preservation of jobs supported the preservation of employment in the affected activities, while the coverage of workers was gradually reduced due to the more favorable epidemiological situation, but also increasingly stringent criteria for granting aid.

Graph 3: Unemployment rate



Source: DZS;HZZ; CNB calculation (seasonal adjustment)

Inflation

Annual consumer price inflation (CPI) accelerated significantly in Croatia in 2021, mainly as a result of rising energy prices, especially of petroleum products. The increase in domestic retail prices of petroleum products reflects the rise in world crude oil prices, which was the result of a recovery in demand driven by the reopening of economies around the world and improving global economic prospects and OPEC+ agreements to limit supply.

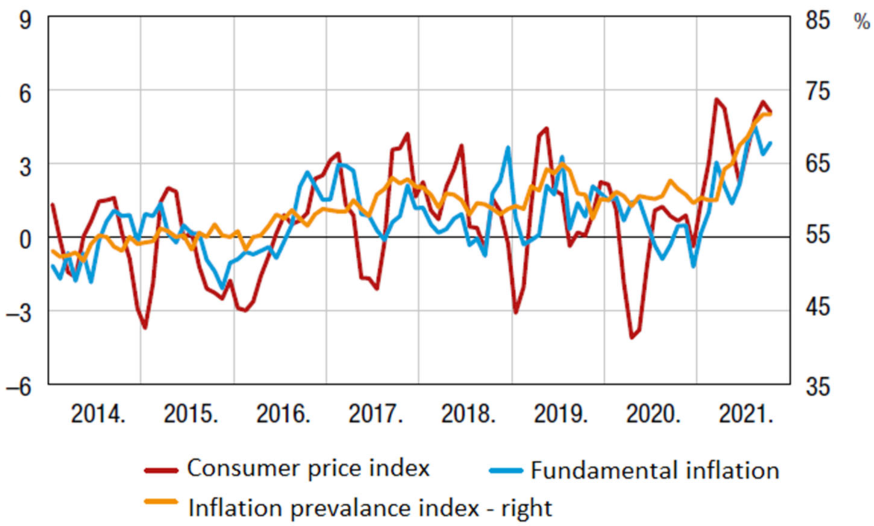
Average annual inflation in 2021 in the euro area was 2.6%, in Croatia 2.7% (according to the HICP), which shows close inflation in Croatia with that in the euro area, where our most important trading partners are, confirming the impact common global negative factors on inflation in Europe and at the same time primarily the import character of inflation in Croatia.

Due to higher prices of petroleum products, the prices of goods in the production of which they are a significant intermediate good also increased. The increase in inflationary pressures was also influenced by rising prices of other raw materials on the world market and freight rates in maritime transport, as well as difficulties in global supply chains, which led to shortages of certain semi-finished and finished products.

Weather disasters in Croatia have reduced the yield of certain agricultural crops. In the mentioned conditions, from April 2021 there was a continuous growth of the inflation distribution index, ie an increase in the share of the number of products whose prices grew in a given month in the total number of products, and short-term indicators of total and core inflation increased significantly. The annual growth rate of service prices increased during the summer months due to higher prices of catering and accommodation services.

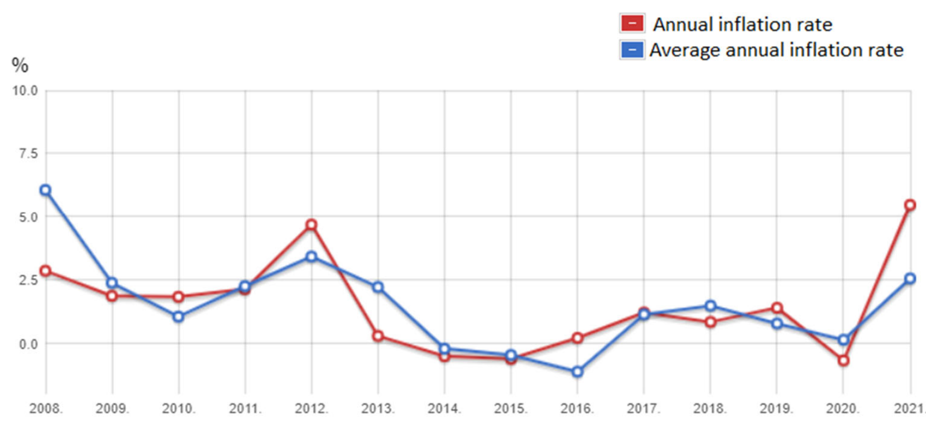
In line with the recovery in demand, the annual growth rate of service prices has also increased in the last four months. The acceleration of inflation in Croatia in the last four months has been less pronounced than in the euro area. The milder acceleration of core inflation in Croatia is the result of slower growth in prices of services, especially those related to tourism, compared to the euro area. In the same period, the growth of the contribution of food prices was higher in Croatia than in the euro area, but this was offset by the weaker growth of the contribution of energy prices.

Graph 4: Fluctuation indicators of inflation



Source: DZS; calculation CNB

Graph 5: Graph of annual and average annual inflation rates



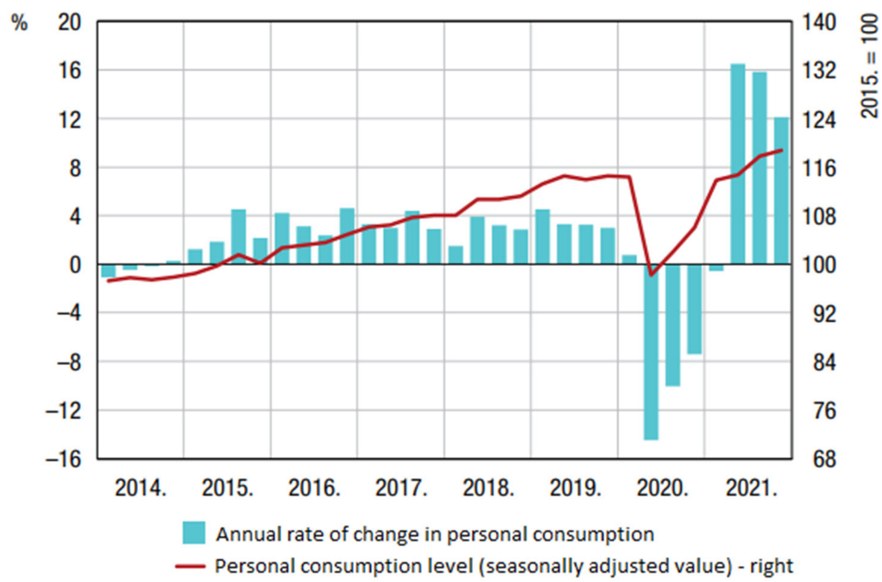
Source: DZS

Personal consumption

Economic activity in 2021 intensified, and all components of GDP increased. The increase in the annual level was mostly due to the growth of total exports, primarily exports of services due to exceptionally good achievements in tourism, and personal consumption also made a high positive contribution. At the annual level, other components of GDP also increased, apart from government spending. The positive contribution of net foreign demand to economic growth was at a record high, while domestic demand also increased. However, significantly higher GDP growth was absent due to the change in inventories, which gave a strong negative contribution to its increase. High - frequency indicators of economic activity point to relatively mild current economic growth in 2021.

In Croatia, consumer prices, measured by the HICP, were 5.2 percent higher in December than in the same period a year earlier, which, according to Eurostat data, is the highest growth rate since October 2008, when it was 5.7 percent.

Graph 6: Personal consumption - real value



Source: DZS; CNB Bulletin

Terms of financing and banking sector

According to unaudited provisional data for 2021, the total assets of credit institutions increased compared to 2020 by 38.4 billion HRK (8.3%) and amounted to HRK 500.8 bn. kuna. Assets have risen with most credit institutions.

The increase in total loans and advances by 7.6% and the decrease in non-performing loans (NPLs) by 14.1% resulted in an improvement in the relative credit quality indicator, ie the share of NPLs in total loans. The share of NPLs at the end of 2021 was 4.3%, and at the end of 2020 it was 5.4%. Non-performing loans decreased in both the household sector and the non-financial corporations sector. The share of NPLs in the household loan portfolio fell from 7.1% to 6.6%, and in the non-financial corporations sector from 12.5% to 9.9% (partly influenced by the sale of non-performing receivables).

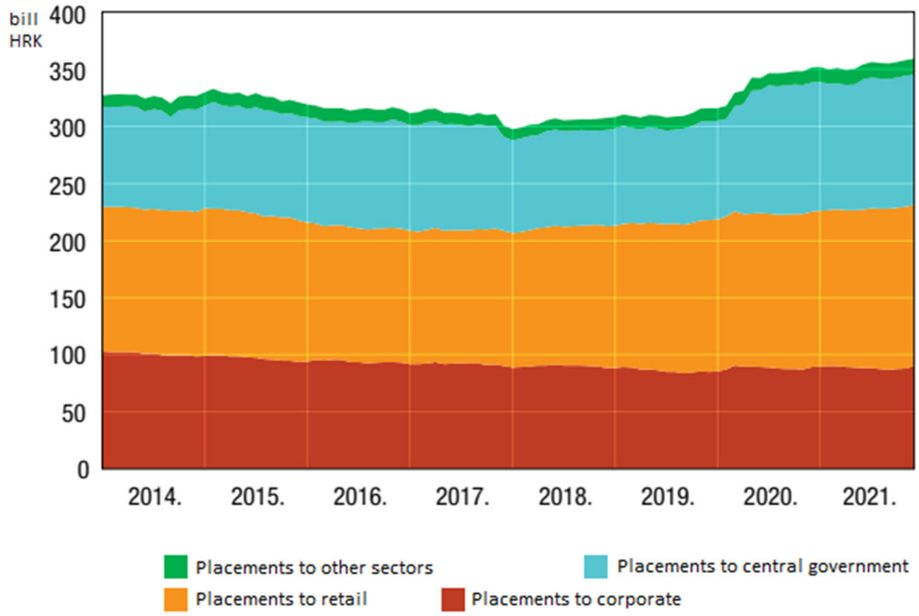
The operations of credit institutions in 2021 resulted in a profit of 5.6 billion HRK, which is 108.8% more than the profit realized in 2020. The recovery of the banking sector, in addition to the increase in profit, also resulted in an increase in profitability indicators, with return on assets (ROA) increasing from 0.6% to 1.2% and return on equity (ROE) from 4.4% to 8.7 %.

The effects of profit retention and targeted regulatory adjustments related to the 2021 pandemic are still visible in the very high values of key indicators of the banking system's capitalization. At the end of 2021, all credit institutions had a total capital ratio higher than the minimum of 8%, and the total capital ratio of the banking system was 25.6%.

The liquidity of the credit institution's system measured by the liquidity coverage ratio (LCR) is still at a high level, and at the end of December 2021 the LCR was 202.5%. All credit institutions met the prescribed minimum liquidity requirements.

At the end of last year, there were 20 banks operating in Croatia, with 18.2 thousand employees.

Graph 7: Structure of credit institution placement



Source: CNB Bulletin

Monetary policy

During the second half of 2021, the CNB continued to pursue an expansionary monetary policy, mainly by purchasing foreign exchange inflows from the Ministry of Finance. As in the first half of the year, due to stable financial conditions in the domestic financial markets, the central bank did not resort to additional monetary policy measures.

Exchange rate of kuna against the euro was relatively stable during the second half of the year, and significant pressures on the foreign exchange market were absent. The CNB, after selling a total of EUR 70 million net to banks through foreign exchange interventions in April and June, did not intervene further during the second half of the year. On the other hand, it has repeatedly continued to purchase foreign exchange inflows from the MoF, which are mainly related to EU funds. That's right, except for 1.8 billion. In the first half of the year, the CNB bought out EUR 1.4 billion net in the period from July to the end of November. Looking at total foreign exchange transactions, in the period from the beginning of the year to November 2021, the CNB purchased 3.1 billion net EUR, which created a total of 23.5 billion kuna of primary money.

Unlike the first half of 2020, when the CNB bought government bonds in order to preserve the stability of the government securities market, during the first eleven months of 2021 there was no need to implement this monetary policy measure. The maturities of individual bonds reduced the balance of total subscribed bonds of the Republic of Croatia by 1.4 billion kuna compared to the end of last year.

As for other kuna operations, the CNB continued to maintain regular weekly operations at a fixed rate of 0.05%. However, due to the weak interest of banks in the conditions of extremely large excess of kuna liquidity in the monetary system, the CNB did not place funds through this monetary policy instrument in the first eleven months of 2021. Structural operations also did not create additional kuna liquidity and their balance at the end of November amounted to 3.1 billion HRK, which is a decrease of 1.5 billion HRK compared to the end of 2020 due to early repayments. After reaching the historical maximum of the average daily liquidity surplus of the domestic banking system of 72.0 billion. In June, banks' free cash declined during the second half of the year, mainly due to a sharp increase in kuna government deposits with the CNB, amounting to HRK 66.4 bn kuna in November. Excess liquidity increased compared to the end of 2020, when it amounted to 54.7 billion kuna, which is primarily the result of the purchase of foreign currency from the state.

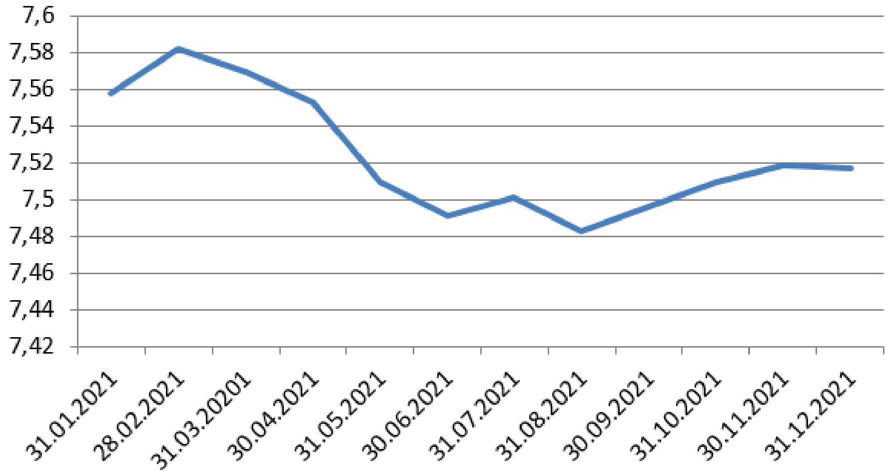
At the end of November 2021, the gross international reserves of the Republic of Croatia amounted to 24.2 billion EUR, which is an increase of 5.3 billion EUR (27.8%) compared to the end of 2020. Net available reserves increased by 3.3 billion over the same period EUR (18.4%) and reached 20.9 billion at the end of November. The increase in gross reserves was mainly due to the purchase of foreign currency from the state, a higher level of contracted repo transactions and the new allocation of Croatia's special drawing rights in the International Monetary Fund. Gross and net reserves continue to exceed primary money.

It should be emphasized that the CNB could still cover the possible need for additional foreign exchange liquidity with funds available on the basis of a foreign exchange swap line of kuna for euros in the amount of up to 2 billion. EUR, first agreed in April 2020 with the European Central Bank.

The exchange rate of the kuna against the euro was stable during 2021. After a slight depreciation in the first quarter, the appreciation of the kuna against the euro began in May and June and continued until mid-July, when the exchange rate began to weaken due to rising epidemic uncertainty and strong demand from the financial and corporate sectors for foreign exchange. In August, the exchange rate slightly appreciated under the influence of increased foreign exchange inflows during the peak tourist season. During September, the exchange rate began to depreciate slightly and this trend continued over the next two months. In relation to the central parity, the average exchange rate in the period from Croatia's accession to the European Exchange Rate Mechanism until the end of November 2021 ranged in a very narrow range from -1.0% to + 0.8%.

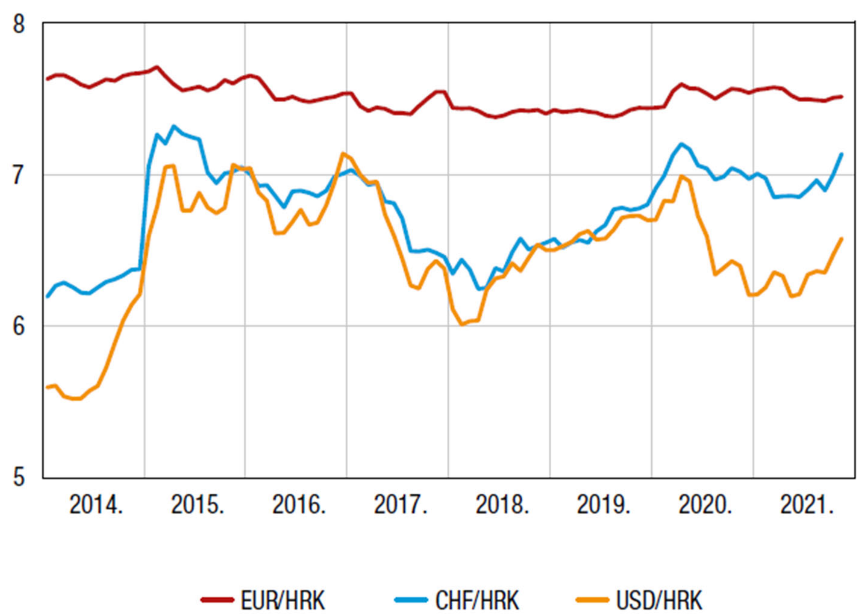
The exchange rate of the kuna against the US dollar and the Swiss franc at the end of November 2021 was higher than at the end of the same month in 2020, reflecting the weakening of the euro against these currencies in global financial markets. During the second half of 2021, the strong growth of monetary aggregates continued, with a stronger intensity than in the first six months.

Graph 8: Average FX rate EUR/HRK in 2021



Source: CNB

Graph 9: Nominal exchange rates of HRK against selected currencies



Source: CNB Bulletin

Management report

J&T banka d.d. is registered as joint-stock company at the Commercial Court in Varaždin under registration number (MBS): 50000185, with its registered office in Varaždin, Međimurska ulica 28, for the performance of the following activities:

- accepting deposits or other repayable funds from people and approving credits from those funds, for own account;
- accepting deposits and other repayable funds;
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring);
- finance lease;
- issuing guarantees and other warrants;
- trading for own account or for the client's account:
  - money market instruments,
  - transferable securities,
  - foreign currencies, including exchange transactions,
  - financial futures and options,
  - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
  - trading for own account.

As at 31 December 2021, the Bank operates through 2 branches (Varaždin, Zagreb).

The Bank performs most of its business activities in the territory of the Republic of Croatia while only a small part of its business is carried out with non-residents.

Total revenue for the Bank in 2021 amounted to HRK 43,663 thousand.

The Bank employs 57 full- time workers.

Profit in 2021 amounted to HRK 2,975 thousand. The Bank did not have any obligation to pay taxes on profits.

In 2021, the Bank did not receive public subsidies.

MISSION

Our individual approach to each client and our top quality and professional services, based on the competencies of our employees, creates added value for our clients. This contributes to the growth of our organization and the improvement of the quality of life of our community. We appreciate the personal contribution of all of our employees whose creativity and knowledge are our greatest values.

VISION

Our vision is to continuously exceed expectations and be the first to innovate and create new values. We want to be a leader in creating world-class financial solutions for our customers and be the best in providing growth and development opportunities to all our employees.

Financial performance

Bank operations in 2021 were marked by continuing business strategies and putting the focus on larger corporate clients. Total share capital amounts to 307,085,400.00 HRK and the ownership share of J&T Bank a.s. Prague remained the same at 82.55%.

In 2021 Bank generated HRK 27.6 million of interest income, while interest expenses amounted to HRK 4.7 million. Net interest income amounted to HRK 22.9 million, which is increase compared to 2020 by HRK 6.2 million. Part of the reason for this increase is the collection of interest income on non-performing loans and the reduction of interest rates on liabilities for received subordinated instruments.

Portfolio of loans and advances to customers on 31 December 2021 and 31 December 2020 amounted to HRK 351.2 million and HRK 434.2 million, respectively.

Securities portfolio at 31 December 2021 amounted to HRK 174.7 million and was HRK 116.4 million lower than the end of the previous year.

Net fee and commission income in 2021 amounted to HRK 2.7 million (in 2020. HRK 4.5 million).

Administrative costs and depreciation amounted to HRK 13.8 million, HRK 4.6 million lower compared with the previous year as a result of the active management of the Banks expenses and suspension of the obligation to pay savings deposit insurance.

The Bank records impairment released of loans to customers in the net amount of HRK 3.6 million, while losses of impairment last year amounted to HRK 2.9 million. Profit for the current year after the value adjustment amounts to HRK 2,975 million (the same period last year loss was HRK 16,592 million).

The most significant share of the funding structure of the Bank comprise term deposits which amounted to HRK 380.8 million at 31 December 2021 and comprise 46,84% of total sources of funding, while the share capital and reserves of the Bank as at 31 December 2021 amounts to HRK 115.2 million and comprise 14,17% of total sources of funding.

As at 31 December 2021 the Bank's total assets amounted to HRK 812.9 million (HRK 1,046.6 million at 31 December 2020).

Events after the reporting date

The invasion of Ukraine by the Russian Federation, and the consequent adoption of international sanctions against the Russian Federation and The Republic of Belarus, represent a significant new event that has affected the Bank's risk management, as well as general corporate governance in all related areas. Following the invasion and the adoption of international sanctions, the Bank conducted a detailed analysis of potential increased exposure to credit risk, market risks, liquidity risk, IT/cyber risks and risks related to the prevention of money laundering and terrorism financing.
Management is closely monitoring the situation and if necessary will undertake all available measures, in order to mitigate the potential adverse effects of any events or circumstances.

Retail sector

In y2021. Retail banking was performed through 2 branches on domestic market (Varaždin and Zagreb) and on German market in cooperation with Deposit Solutions partner (before: Savedo Gmbh).

Primary focus of activities in the retail segment was on managing the existing portfolio of consumer loans, i.e., reducing the provisions costs and improvement of collection activities and monitoring of clients and sale of performing consumer loans to other credit institution, which process was finally realized in 12/2021. According to that, in y2021. gross overdue receivables of retail credit placement compared to y2020. decreased by 44% (2021 HRK 1.5 mill; 2020 HRK 2.7 mill), while the cost of gross provisions decreased by 45% (2021 HRK -1.6 mill; 2020 HRK -2.9 mill).

Bank did not approve new consumer loans during y2021., which is the continuity of non-offering (providing) new consumer lending services since y2017. and earlier.

In line with the long lasting exit strategy in consumer lending and realized sale of performing loans, the retail credit portfolio in y2021. was further decreased by HRK 28.9 million, or 89%.

Variable interest rates on existing retail loans has followed decrease of NRS (National Reference Rate - 6M NRS1) in y2021., all in-line with the Bank's Principles for Determining Variable Interest Rates on Retail Loans. In y2021 value of 6M NRS1 has decreased by 0.05 pp (2021./IV. 0.10% - 2020./IV. 0.15%) for HRK loans and 0.03 pp (2021./IV. 0.09% - 2020./IV. 0.12%) for EUR loans.

Focus on deposit portfolio management was maintaining short term liquidity sources, exit from long term sources and optimizing deposit structure and interest costs. During the y2021. interest rates on deposits with floating had been increased ones due to decrease of reference parameter – Indeks referentne kamatne stope na depozite ("IRKSD"). Average interest rate on citizens' deposits has been reduced by 0.26 pp for deposits in kuna, 0.18 pp for deposits in Euros, while the volume of deposits decreased by HRK 147.4 million or 25.7%. In the 4Q 2020, Bank made a decision to stop contracting new long-term retail deposits and redirecting the focus of saving operations to short-term sources in this segment. Also, starting from 1 April 2021, Bank has stopped automatic prolongations of existing long term deposits when they mature i.e. long term deposits do not renew anymore on the same maturity, but become on sight deposit,

Regarding to the term deposits portfolio in cooperation with partner Deposit Solutions, the average interest rate was increased for 0.09 pp, while the volume of deposits under this channel was decreased by EUR 219,105 or 9.69% in 2021, as a result of the contract termination effective as of 31.12.2020 with residual obligation to continue to manage the existing portfolio until expiration of each particular deposit.

During y2021. the Bank has begun the process of deactivation of all Maestro debit cards and cancellation of the card business in full to be effective as of 31.1.2022. At the same time, the Bank made business decisions to stop providing following bank services: opening new current accounts and E-savings accounts, contracting internet banking service, all to be cancelled from 31.1.2022. Also, the Bank made decision to cancel automatic renewals of existing silent overdrafts on current accounts starting from 1.1.2022. Given the all before mentioned, during the 4Q 2021 Bank has made most of activities needed to perform the planned cancellations and cessations of products/services, including informing the clients/consumers and the CNB in timely and comprehensive manner.

The Bank primarily was focused to adjust the card operations to the recommendations of the Croatian Civil Protection Headquarters and the Croatian Institute of Public Health in epidemic conditions and according to that the maximum individual amount of contactless electronic payment transaction with debit "contactless" cards at POS terminal, without reliable client authentication (without using a PIN), has been increased from the current HRK 100.00 to HRK 250.00, ie in the period of high epidemic the calculation of cash withdrawal fees has been suspended at all ATMs outside MBNet network in the Republic of Croatia, for all cards issued to citizens.

Corporate sector

Despite the ongoing & continued situation in the economy caused by the Covid-19 pandemic, the corporate banking portfolio is continuing to operate in a confident manner, and is showing positive business signs through its operations. The corporate banking portfolio achieved a gross decrease of 16% in regard to 2021 as one of the reasons is change in the regulation that out of total capital calculation vs large loans – above 10 % of guaranteed capital, hybrid instruments are excluded.
Also, continuous workout actions vs NPL loans shows further decrease in the NPL loans by 33%. The vast majority (around 80%) of the NPL exposure concerns going concern clients that regularly repay their obligations.

Corporate	2018	2019	Δ 18/19	2020	Δ 19/20	2021	Δ 20/21
Gross	**463,118**	**372,839**	*(19.5%)*	**439,802**	*18.0%*	**368,346**	*(16.2%)*
A (PL)	330,104	274,882	*(16.7%)*	361,243	*31.4%*	314,497	*(12.9%)*
B (NPL)	122,451	91,409	*(25.4%)*	68,801	*(24.7%)*	40,274	*(41.5%)*
C (NPL)	10,564	6,548	*(38.0%)*	9,758	*49.0%*	13,575	*39.1%*

In the area of Anti-money laundering and terrorist financing, the corporate banking department is continuing to conduct in-depth analyses, monitor the transactions, and report all of the suspicious and disputable transactions to responsible persons, according to the valid procedures and legislation.
As mentioned in the previous report, the Investment banking department was merged with the Corporate department and it continues to operate under the same.
The corporate banking department is already preparing several new loans in different sector & industries, with the emphasis on the project finance / real estate and investment banking loans. The amount of the loans that are in the works is significant, and will contribute to the expansion of the corporate portfolio. As the majority of the loans are syndicated and highly complex the whole process of structuring such loans is quite demanding, and it requires a lot of time, as the analysis of those loans have to be quite thorough. The realization of these new loans in the making is expected in the second quarter of 2022.
As mentioned, the significant amount of loans are syndicated so the contribution to the revenue growth is expected through approvals of those syndicated loans. Additional smaller local loans, up to EUR 3.000.000,00, are structured without the syndication with the J&T group, and will continue to bring in additional interest revenues.

The growth strategy of the portfolio in the Corporate Banking Department continues the planned volume, and the first significant results are expected in the third quarter of 2022.

Treasury activities

Compared to 2020, which was marked by the fight against the coronavirus pandemic, and in Croatia by the earthquakes in Zagreb and Banija, the Croatian economy in 2021 grew at high rates. The country's GDP after the fall in 2020, grew in 2021, on the trail of a good tourist season (approximately 10% after the third quarter). The monetary policy of the CNB, with the stimulus of negative inflation rates, remained expansive. Central bank continued to increase HRK liquidity announcing the regular repo auction showing that it will support credit activity in domestic currency. Adding to that was aggressively loose ECB monetary policy so it is clear that money markets interest rates where under strong deflationary influences both in Eurozone and Croatia.

The liquidity of the domestic and banking system of the Eurozone remained at a high level, and there was an additional decline in interest rates, although in a smaller percentage than in previous years Thus, the 6-month EURIBOR rate dropped from -0.526% from the beginning of the year to -0.546% on the last day of the year. The trend of a slow decline in the cost of bank financing in Croatia in both the kuna and other currencies continued, with the CNB's 12-month National Reference Rate of the Average Cost of Banking Sector Financing (NRS) for the kuna falling to 0.11% in the third quarter. For euros it was 0.09%.

The securities market, after yield growth in 2020, slightly recovered in 2021. The market reactivated, trading volumes have increased slightly, but have not reached the level before the pandemic. There was an increase in prices, i.e. a decrease in yields during the year, only to record a price drop before the end of the year. Yield on the longest domestic government bond with a currency clause in euros (2040), issued with a yield of 1.28% ended the year at 1.755%, while on the longest kuna bond (2032) the yield rose from 1.06% at the beginning of the year at 1.525% at the end of 2021.

As for the EUR/HRK exchange rate, the kuna strengthened against the EUR during 2021. Due to the year marked by the COVID 19 pandemic in the first part and the good tourist season in the second part, the exchange rate ranged from 7.47-7.58 and the average exchange rate in 2021 was 7.52, while in 2020 it was 7.53.

Within the aforementioned macro framework, the Bank went through the year maintaining a high share of liquid assets in its balance sheet at the same time reducing its liabilities, and at the same time the average interest cost of its liabilities.

In 2021, with a small trading volume, the Bank realized a securities trading income of HRK 493 thousand, while in 2020 it amounted to HRK 68 thousand. Revenues from exchange rate differences in 2021 amounted to HRK 2.37 million, which is at the level of those in 2020 which amounted to HRK 2.43 million.

Employees and organizational structure

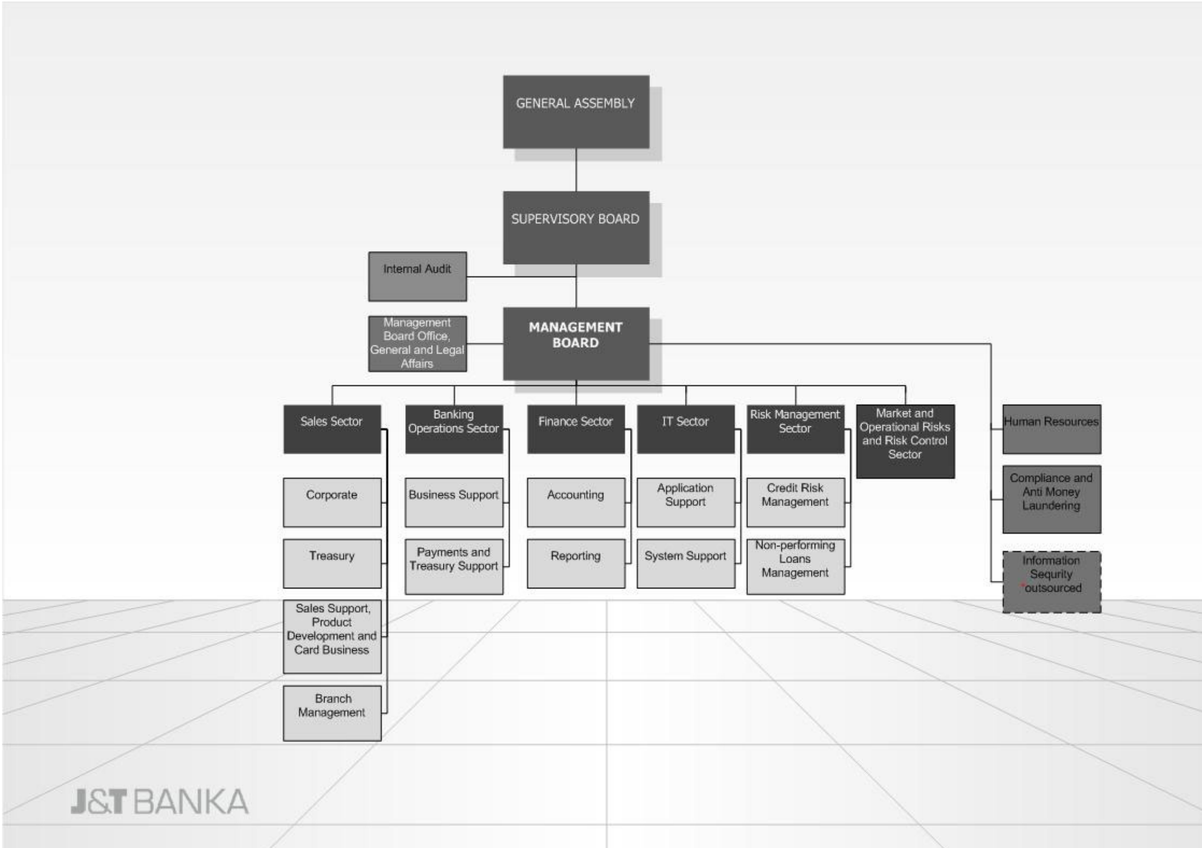
During 2021, Bank's business took place in Bank's headquarter in Varaždin, branches in Zagreb and Varaždin and office in Zagreb.

In 2021, the Bank changed its organizational structure in a way that new independent Market and Operational Risks and Risk Control Sector was made from the same named department in Risk Management Sector, which was in the same time abolished. Controlling Department within Finance Sector was also abolished, and the controlling was transferred into Accounting Department.

In order to further streamline operations and adjust the process to the current needs of the Bank's business, during 2021, decisions on redundancies were made, and the Bank decreased the number of employees.
In that process, the bank took into account all legal provisions.

On December 31 2021 Bank had 57 employees.

Organizational scheme



IT development

OLBIS (Online Bank Information System) is an integral bank information system, which now consolidates all application modules of 'core' system, as well as full regulatory reporting.

During 2021 most activities regarding application development were focused on adaptation of OLBIS system to fulfill legislative and regulatory demands and reports.

During 2021, several significant OLBIS changes were implemented:

- turnover report for the Tax Administration with exceptions
- completion of desk modules - GN cash report
- development of modules and programs to support POBA sale
- new forms for NSFR stable sources of funding
- new NPL backstop
- introduction of operating leases in reports

In the infrastructure segment, most engagement was related to the relocation and few technical upgrades. List of important tasks that have been done:

- relocation of the Varaždin branch
- resolving the backlog from the migration of the system room to Zagreb (IP phones, additional links, ...)
- establishment of a VPN link to Bratislava, and installation of Horizon clients.
- separation and upgrade of SWIFT network and PCs
- relocation of the Zagreb branch
- relocation of the back-office from Radnička to Branimirova

Parallel to before mentioned activities, continuous upgrading of system support and information security segment was carried out.

Internal controls system and control functions

The internal controls system is a set of processes and procedures set up to adequately control risks, monitor efficiency and performance of the Bank's operations, the reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes in order to ensure the stability of the Bank's operations.

The internal controls system shall ensure effective and efficient operations; prudent conduct of business; adequate identification, measurement and mitigation of risks; the reliability of financial and non-financial information and reports; sound administrative and accounting procedures; and compliance with laws, regulations, supervisory requirements and the institution's internal policies, processes, rules and decisions.

In accordance with the Credit Institutions Act and the Decision on governance arrangements, the Bank established an internal controls system comprising the following:

1. appropriate organisational structure;
2. organisational culture;
3. adequate control activities and segregation of duties;
4. appropriate internal controls integrated into business processes and activities of the credit institution;
5. appropriate administrative and accounting procedures;
6. activities within the scope of the control functions of the credit institution.

The Bank prescribed and established adequate control activities and segregation of duties, adequate internal controls and appropriate administrative and accounting procedures carried out in course of the Bank's regular operations.

In accordance with provisions of laws and by-laws, the Bank established three control functions:

1. the risk control function;
2. the compliance monitoring function;
3. the internal audit function.

The risk control function ensures the Bank's compliance with risk management strategies and policies by performing risk analysis, monitoring risk, reporting risk-related information to the Management Board and other persons, and participating in the preparation, application and monitoring of the functionality of risk management methods and models. It also carries out the evaluation of the Bank's internal capital adequacy and controls the preparation of the Bank's recovery plan.

The compliance monitoring function ensures the compliance of the Bank's operations with relevant regulations, standards and codes and internal acts. The compliance monitoring function is responsible for: identifying and assessing the compliance risk to which the credit institution is or might be exposed; advising the management board and other responsible persons on the implementation of relevant laws, standards and rules, including informing them on developments in these areas; assessing the effects that changes in relevant regulations will have on the operation of a credit institution; verifying compliance of new products or new procedures with relevant regulations as well as amendments to such regulations in cooperation with the risk control function; reporting on compliance risk to the management board, the supervisory board and the relevant supervisory board committee, and other relevant persons; cooperating and exchanging information with the risk control function in relation to compliance risk and its management; and providing advice as regards the preparation of training programmes related to compliance.

The internal audit function, as part of the internal controls system, assesses the following: appropriateness of governance arrangements; adequacy of existing policies and of their compliance with regulations and other regulatory requirements and with the Risk appetite and Risk management strategy of the Bank; correctness and effectiveness of implementation of the procedures referred to in Article 24, paragraph (1) of this Decision and the compliance of these procedures with the applicable laws and regulations and with decisions of the Bank's Management board and the Supervisory board; adequacy, quality and effectiveness of the controls performed and the reporting done by the business units and the Risk control and Compliance functions; accuracy and reliability of the accounting records system and financial statements; outsourced activities; strategies and procedures in place to assess the adequacy of internal capital and internal liquidity; reliability of the internal and external reporting systems and timeliness and accuracy of the reports prescribed in the Credit Institutions Act, regulations adopted under that Act and other regulations; methods of asset protection; data collection systems and the validity of information that is publicly disclosed in accordance with Title XIV of the Credit Institutions Act, Regulation (EU) No 575/2013, and other regulations; other assessments as prescribed by the Credit Institutions Act, regulations adopted under that Act, Regulation (EU) No 575/2013, the relevant technical standards and other regulations.

Each control function prepares reports in line with their tasks and established operational work plans, in accordance with provisions of the Credit Institutions Act and regulations and decisions issued based thereon.

Financial reporting control system

The Bank has ensured the internal control systems of the accounting system and financial reporting, risk management system and the reliability of the information system covering all the major Bank's activities. In addition, the Bank hired an external auditor and has applied previous, current and subsequent financial supervision of the financial reporting and decision-making process.

The accounting system, based on the International Accounting Standards and the International Financial Reporting Standards prescribed by the Accounting Policies of the Bank, is regulated by the Accounting Rules that define rights, obligations and responsibilities of all the participants, including the obligation of ongoing monitoring, while the functioning of the other systems is governed by special standard regulations.

The Bank's internal control system includes efficient direct monitoring through integrated procedures and processes set for monitoring the efficiency of the Bank's operations, reliability of financial reports and compliance with the laws and by-laws. The Bank's internal control system is established through parallel operating of three mutually independent functions: (a) risk control function, (b) compliance monitoring function, and (c) internal audit function.

Research and development

Intangible assets include internally developed software of total capitalised value of HRK 19.6 million. The Bank uses software in its business, and it is transferred to use according to the stage of completion.

Expenditure related to the development of software is capitalised when it meets the criteria outlined in IAS 38 Intangible Assets.

Information relating to treasury shares repurchase

The Bank has 590,338 treasury shares as at 31 December 2021.

Subsidiaries information

The Bank has no subsidiaries.

Development plan

Since the entry of J&T Bank into the Bank's ownership structure, the business strategy is based on the implementation of the successful and long-standing banking experience of J&T Bank in the Czech Republic, Slovakia and in Russia, also in Croatia, is J&T Bank d.d.. This strategy adapts to the needs of the Croatian market to meet all legal requirements, but also the specifics of the market.

The Group posesses extensive experience in a wide range of services, ranging from retail banking, through private to corporate banking, where with J&T banka d.d. the focus has been, and will remain, on corporate banking, while private banking did not take root in Croatia, while it has been decided to continue with retail banking, but exclusively in the form of passive operations (collecting deposits) and not active ones (lending). The Bank has suspended retail banking activities in terms of lending to retail (households) through any form of consumer lending. Moreover, the Bank confirmed its propensity to close active business in retail by selling performing retail loan portfolio in Q4 2021 and by starting with the closure of card business activities.

Still, the Bank will continue to be present in the segment of collecting retail deposits as one of the sources of funding, besides funding from Mother-Bank. In the coming period in the field of collecting deposits from retail clients, the Bank's strategy plans to reflect that of the parent, which is based on doing business with clients with significant financial assets, and for this purpose will develop optimal and individual combination of financial products and services business practice and experience of the J&T Group.

Given the long-term negative operations of the Bank until 2017, the strategic concept has been changed, and the main pillars of the Bank's market repositioning and its own internal restructuring, and ultimately achieving a positive result, which are being applied from 2018 onwards (and have also been applied during 2021 and will be in 2022) were as follows:

- focusing on the corporate market segment, primarily investment banking, project financing, refinancing/restructuring exposures from other creditors, financing investments in the tourist sector and financing of real estate projects, and other activities with which the J&T Group, and also J&T banka d.d., have past experience,
- creating opportunities for financing placements whose required amount of credit financing exceeds the capital possibilities of the Bank, by including other members of the Group (primarily the parent company) in the financing, through syndicated loans,
- individualized approach to the client and creation of banking products according to the client's needs,
- finding solutions for the client - the so-called "customer intimacy" approach - spending a significant amount of time with clients to understand their needs and create financial solutions, without making solutions with which both parties are not satisfied,
- healthy portfolio growth (additional tools and criteria were introduced when approving placements in order to ensure its quality and adequate diversification along with portfolio growth),
- continuous improvement of the credit risk management process within the Bank, ie establishment of stronger business risk control mechanisms, related to asset growth,
- control of operating costs, after the successful restructuring through the reduction of the same, and given the change in strategy and reduction of the number of employees (additional step of FTE reduction has been done during y2021 in order to align with banking operations that would be offered once and if the Bank transforms to the branch, while still having the sufficient number of employees to be able to manage without issues the regular business operations of a commercial bank in Croatia),
- constant training and education of employees both in the form of internal education by which knowledge is transferred from one organizational unit / person to another, as well as by encouraging participation in quality external education,
- continuing to address the remaining non-performing portfolio (NPL) inherited from history (and consequently risk costs), which includes not only NPL placements, but also foreclosed assets, which a few years ago represented a significant burden on the Bank's operations (further improvements were done during 2021 with significantly reductions of foreclosed assets and NPL exposures) – ultimate plan is to reduce NPL ratio deeply in the single digit area in y2022
- giving a significant focus in agency business, where the Bank is able to earn from other members of the Group a significant amount of fees for the management of placements that are fully or largely financed by these members (mostly placements related to the financing of foreign investors for projects in Croatia).

Ultimately, with a new business strategy or the creation of a new portfolio, the Bank creates the foundations or prerequisites to become profitable in the long period, either as a Bank or a subsidiary.

The construction of the Bank's new public image has been supported in recent years by direct communication with the market, and this process has profiled the Bank, from the Bank where most placements were to clients based in the vicinity of the Bank's headquarters, to the Bank, which will continue to operate more actively on the territory of the entire Republic of Croatia and internationally as well. As this business will expand territorially, the focus of these activities will expand from region to region.

The mission is to build a strong and stable bank on the Croatian market aimed at prosperous clients who are able to provide their own funds, as well as the contribution of external bodies (e.g. grants, subordinated loans to third parties, etc.), when financing certain projects. Primarily, the Bank's clients should be reputable, unquestionable well-known and verified entrepreneurs with experience in the financed activity.

Primarily, the Bank's clients should be reputable, ie well-known and proven entrepreneurs with experience in the activity that is being financed. The Bank's target clients should be clients who invest a significant portion of their equity or assets in projects that require partial financing from the Bank. Target clients will also be those who are able to include third parts such as HBOR, EU funds with grants in the risk-taking structure for a particular project, etc. Through the use of these risk dispersion mechanisms on several parties / entities, the Bank achieves credit reduction the risk it assumes through the approval of a certain placement, which also achieves a better structure of the Bank's portfolio.

Significant part of the Bank's total credit exposure currently relates to the financing of foreign clients, who are also clients of the J&T Group, but the approval of such placements was preceded by primary and secondary collection risk analysis, as well as all other placements that came to the Bank through other sales channels, taking into account, of course, the specifics of such clients in terms of their business activities, compared to local/domestic clients financed by the Bank to a greater extent (due to which risky products granted to these clients deviate from the usual terms of placement in the form of collateral, repayment methods, etc.).

Also, for some financings of clients in other countries, J&T Bank dd Croatia becomes a competence center for the risk analyses.

When forming the credit risk strategy, the Bank will continue to be guided by the goal of adequate portfolio diversification, which will be addressed by continuing the minimum annual update of introduced internal limits for certain types of products, activities and all other common risk factors, all with the aim of managing and controlling concentration risk.

The collection of deposits and share capital is the basis for the possibility of fulfilling the aforementioned mission, while maintaining capital requirements, ie the capital adequacy ratio at the minimum prescribed level. J&T Bank, a.s. has in the previous period provided sufficient capital that met all the legal criteria necessary for the further development of the Bank.

Depending on price movements on the capital market, the Bank will continue to actively adjust its pricing policy, ie combine the structure of sources from its depositors (retail and companies), and other sources, which primarily refers to the possibility of financing asset growth through credit lines by owner.

Also, the owners with their letter of support expressed in case of further needs (and primarily due to the growth of the Bank's portfolio) the possibility of further capital strengthening of the Bank. However, the ultimate goal of the owner is to operate on the Croatian market through a branch of J&T banka a.s., but at this time the owner has not made a decision on how to implement it.

Risk management

The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk include foreign exchange risk, interest rate risk and risk of changes in market prices of equity and debt securities.

An integrated risk management system is being developed and constantly upgraded on the Bank level by introducing policies and procedures for risk assessment, measurement, control and management, and for determining the risk exposure limits compliant with the legal framework and the Bank’s risk profile.

Credit risk

The Bank is exposed to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of a client or third party or when issuing guarantees. The risk of default which occurs in financial instrument transactions with certain parties is constantly monitored. To manage credit risk, the Bank deals with clients of good credit standing and obtains security instruments in order to, as a rule, secure the repayment of placement by two independent instruments (cash flow and collateral).

Credit risk is managed in line with the Bank's policies. Credit exposure toward a portfolio or specific groups is regularly reviewed in accordance with established limits. The competent bodies of the Bank responsible for approving limits are regularly informed of limit utilization. The Credit Committee approves all material increases in credit exposure and issues all decisions related to credit risk.

Liquidity risk

Liquidity risk arises in the funding of the Bank's activities and in the management of its positions. The Bank has access to different sources of funding. Funds are collected through a variety of instruments, including different type of deposit, borrowings, dependent liabilities, including deposits, borrowings and equity. The Bank is systematically working on defining the procedures and business processes that efficiently monitor liquidity risk by detecting and monitoring changes in funding in order to achieve business objectives set in accordance with the overall business strategy of the Bank.

The Bank adapts its business activities related to liquidity risk in accordance with legal provisions and internal policies for maintaining liquidity reserves, matching assets and liabilities and limit control, and with targeted liquidity ratios and contingency plans. The Treasury manages liquidity reserves on a daily basis and ensure that all of the client's needs are successfully met.

Market risk

Market risk management entails position and foreign exchange risk management. In order to manage position risk defined as the risk of loss arising from the change in the price of a financial instrument, a limit system has been established according to the type of financial instrument and issuer. Limit utilization is monitored on a daily basis.

Foreign exchange risk, defined as loss arising from the change in exchange rates of a relevant foreign currency due to the currency gap in the balance sheet, is managed by the Bank on a daily basis in accordance with legal provisions related to the open foreign exchange position.

Interest rate risk represents the sensitivity of the Bank's financial position to movements in interest rates. The Bank's operations are influenced by interest rate risk to the extent that interest-bearing assets and liabilities mature, or their interest rates change at different points in time or in different amounts.

Operational risk

Operational risk exists in every segment of the Bank's operations, requiring knowledge and continuous monitoring of all business processes. The organizational model of the operational risk management process is conceived at the level of centralized and decentralized functions of operational risk management and it is carried out in accordance with legal provisions, Basel guidelines and internal acts (policies, procedures and methodologies for operational risk management).

In the context of managing operational risk of the information system, IS security management entails a series of periodic activities whose aim is to reduce operational risk of the Bank's information system, or more precisely, to implement control mechanisms, improve business processes and harmonize with legislation in order to reduce damages that vulnerabilities can cause in the Bank's information system.

In order to manage operational risk, the Bank has provided appropriate risk management for risk management, information system risk, risk model, risk to project management, risk management related to outsourcing, risk management compliance, business changes, including business risks, new products, activities, processes and systems, significant inherent risks in existing products, activities, processes and systems, and business systems, and business continuity management. The Bank has provided an appropriate system for preventing money laundering and financing of terrorism.

Policies for managing financial risk are described in detail in Notes to the Annual Report for the year 2021.

For and on behalf of J&T banka d.d. Varaždin:

Hrvoje Draksler, President of the Management Board

J&T BANKA d.d.

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Petar Rajković, Member of the Management Board

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

The Management Board is responsible for preparation of financial statements for each financial year which fairly present, in all material respect, the financial position of J&T banka d.d. ("the Bank") and its operation and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for a taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

The Management Board is responsible for submission of its annual financial statements to the Supervisory Board, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The Management Board is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/2020, 119/2021).

The financial statements set out on pages 33 to 124 as well as supplementary schedules for the Croatian National Bank, set out on pages 125 to 132 and reconciliation, set out on pages 133 to 142 were authorised by the Management Board on 18 March 2022 for issue to the Supervisory Board and are signed bellow to signify this.

The Management Board is also responsible for the preparation and content of the Management Report as required by the Croatian Accounting Law, and for other information which comprises the Introduction, the Macroeconomic Environment and Banking Sector in the Republic of Croatia in 2021 set out on pages 2 to 11 and the Management Report presented on pages 12 to 23 and were approved by the Management Board on 18 March 2022, and are signed bellow.

For and on behalf of J&T banka d.d.:

Hrvoje Draksler, President of the Management Board

J&T BANKA d.d.

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Petar Rajković, Member of the Management Board

Independent Auditors’ report to the shareholders of J&T banka d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of J&T banka d.d. (“the Bank”), which comprise the statement of financial position of the Bank as at 31 December 2021, and the statements of comprehensive income, cash flows and changes in equity of the Bank for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as “the financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for credit institutions in Croatia.

Basis for Opinion

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

Key Audit Matters

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

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

Independent Auditors’ report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Impairment of loans and advances to customers

As at 31 December 2021, gross loans and advances to customers: HRK 372,009 thousand, related impairment allowance: HRK 22,872 thousand and reversal of impairment loss recognised in the income statement: HRK 3,492 thousand (31 December 2020, gross loans and advances to customers: HRK 472,424 thousand, impairment allowance: HRK 44,098 thousand and impairment loss recognised in the income statement: HRK 4,466 thousand).

Refer to page 48 (Significant accounting policies), page 94 (note 5 Significant accounting estimates and judgements), page 56 (note 4.1.1 Credit risk) and page 101 (note 10 Loans and advances to customers).

Key audit matter	How our audit addressed the matter
Impairment allowances represent the Management Board’s best estimate of the expected credit losses (“ECLs”) within the loans and advances to customers at the reporting date. We focused on this area as the determination of impairment allowances requires significant judgment from the Management Board over the amounts of any such impairment. The Bank calculates allowances for credit losses in accordance with the Croatian National Bank’s (the CNB’s) regulations, which incorporate the requirements of IFRS 9 Financial instruments, based on the expected credit loss (ECL) model (with dual-measurement approach, under which 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 (SICR) since initial recognition). The impairment allowances for the majority of performing exposures (Stage 1 and Stage 2) (together “collective impairment allowance”) are determined by modelling techniques relying on key parameters such as the probability of default (PD) and loss given default (LGD), other than in respect of the LGD parameter for performing exposures above HRK 1 million and exposures secured with collateral below HRK 1 million, which is calculated individually based on different scenario assumptions. The above assessment takes into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information.	Our audit procedures in this area included, among others: • Inspecting the Bank’s ECL impairment methods and models, and assessing their continued compliance with the relevant requirements of the financial reporting standards and of the CNB rules. • Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, incorporating consideration of the ongoing uncertainty regarding the extent and duration of the impacts of the COVID-19 pandemic, including, but not limited to, the controls relating to the identification of significant increase in credit risk and events of default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due and calculation of the impairment allowances. • Evaluating whether in its loan staging and ECL measurement the Bank appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic. • For loss allowances calculated on a collective basis: — Assessing whether the definition of SICR and of an event of default are appropriate and whether the CNB’s staging criteria were consistently applied; — Obtaining the relevant forward-looking information and macroeconomic projections used in the Bank’s ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information; — Challenging the collective LGD and PD parameters used by the Bank, by, among other things, performing back-testing of historical defaults and by reference to historical realized losses on those defaults and considering any required adjustments to reflect expected changes in circumstances;

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Impairment of loans and advances to customers (continued)

Key audit matter	How our audit addressed the matter
ECLs for non-performing exposures (Stage 3) are generally determined on an individual basis by means of a discounted cash flow analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the probable sale proceeds from the related collateral and minimum period for collateral disposal. Considered is the Bank's own historical experience and specific guidance of the Croatian National Bank (CNB) regarding minimum haircuts to be applied on the estimated value of collateral. Due to the above factors, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19 global pandemic (discussed in Note 39) on multiple sectors of the economy, we considered impairment of loans and advances to customers to be associated with a significant risk of material misstatement in the financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.	— Assessing whether the minimum impairment allowance requirements as prescribed by the CNB have been met. • For impairment allowances calculated individually, for a risk-based sample of loans and advances: — assessing the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2021, by reference to the underlying documentation (loan files), through discussions with the loan officers and credit risk management personnel and by considering business operations of the respective customers as well as market conditions and historical debt service; — for individually calculated LGD, challenging key assumptions applied in the Management Board's estimates of expected future cash flows, by comparing the value of collateral used by the Bank with that assessed by us, by comparing EBITDA used by the Bank with clients' historical EBITDA and by comparing Bank's EBITDA multiples used in LGD calculation with publicly available data, assisted by our own valuation specialist, where relevant. — for those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation such as discount rates, collateral values and realization period by reference to loan files and market rates or by performing respective independent recalculations. • Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage; • Evaluating the accuracy and completeness of the financial statement disclosures relating to expected credit losses against the requirements of the relevant financial reporting framework.

KPMG

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key audit matter (continued)

Going concern considerations

Refer to page 40 (Basis of preparation), page 123 which specifically addressed the uncertainties related to the COVID 19 outbreak and page 124 which specifically addressed the uncertainties related to events after the reporting date

Key audit matter	How our audit addressed the matter
The Bank's financial statements are prepared on a going concern basis. In 2021, the Bank reported a net profit in the amount of HRK 2,975 thousand (2020: net loss in the amount of HRK 16,592 thousand), and as at 31 December 2021 had accumulated losses of HRK 215,517 thousand (31 December 2020: accumulated losses of HRK 218,492 thousand). Due to the losses reported in the past, the Bank has received several capital injections from the majority shareholder in order to maintain its capital adequacy ratio at least at the minimum level required by the CNB. As disclosed in Note 4.1.5, the Bank's capital Tier 1 adequacy ratio as at 31 December 2021 amounted to 22.61%. Although the ratio is above the CNB's minimum prescribed level, potential future losses without adequate capital support may erode the capital base. In addition, the COVID-19 pandemic has continued to evolve and the economic environment is still subject to significant uncertainty, which could continue to impact the Bank's financial results. Additionally, as disclosed in Note 40, the Bank has significant exposure to one client located and operating on the Ukrainian market. The exposure represents approximately 2.6% of the Bank's total assets as at 31 December 2021. In the wake of the above facts and circumstances, the Management Board performed an assessment of whether the Bank would have sufficient resources and adequate capital to continue as a going concern for a period of at least 12 months from the reporting date. The Bank's going concern assessment was based on an analysis of profit and loss forecasts, as well as liquidity projections. The preparation thereof incorporated a number of complex assumptions and required the Management Board to apply significant judgment. The Management Board concluded that the range of possible outcomes considered at arriving at its going concern judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. Note 2 f) to the financial statements further explains how the judgment was formed by the Management Board.	Our audit procedures in this area included, among others: • Inspecting the Management Board's assessment of the going concern basis of accounting, including their evaluation of the business/operating and liquidity risks arising from the COVID-19 outbreak and Ukraine conflict and plans for further actions in response to the risks identified. As part of the procedure we also made corroborating inquiries of the Bank's Management Board; • Analysing the Bank's capital adequacy position (in particular, the minimum capital requirement), and challenging the Management Board's alternative plans for future actions in relation to the going concern assessment, including the feasibility of those plans; • Comparing the Bank's profit and loss forecasts for the current and previous years to the current year's outcomes to assess the quality of the Management Board's forecasting process; • Evaluating the Bank's analysis of COVID-19-related sources of risk for the Bank's business and financial resources, including potential negative effects of COVID-19 on the Bank's credit portfolio, as compared with our own understanding of the risks. We considered Management Board's plans to take action to mitigate the risks; • Evaluating the Bank's analysis of the Russia/Belarus and Ukraine situation and sources of risk for the Bank's business and financial resources, including potential negative effects on the Bank's credit portfolio, as compared with our own understanding of the risks. We considered Management Board's plans to take action to mitigate the risks; • Considering the above procedures, challenging the Bank's financial performance and cash flows forecasts provided to us in support of the management's use of the going concern basis of accounting, by assessing the planned measures to be implemented by the Bank; specifically challenging the key assumptions and judgements with most significant impact on these forecasts, including, among others: — forecast of interest and similar income; — expected loan impairment losses; — capital adequacy position.

Independent Auditors’ report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key audit matter (continued)

Going concern considerations (continued)

Key audit matter	How our audit addressed the matter
The Bank’s use of the going concern basis of accounting is a key audit matter due to the associated extent of uncertainty, and consequently, high level of judgment required in evaluating the Management Board’s plans for future actions and their financial impact.	• Performing an analysis of the going concern conclusion’s sensitivity to changes in the aforementioned key assumptions adopted in the going concern assessment, and considering whether there were any indicators of management bias in the assessment; • Evaluating the appropriateness of Bank’s disclosures in respect of the going concern assessment, subsequent events and any related uncertainties in the financial statements.

Independent Auditors’ report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises of the Introduction, the Macroeconomic environment and banking sector in the Republic of Croatia in 2021, and the Management Report included in the Annual Report of the Bank, but does not include the financial statements and our auditor’s report thereon.

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

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

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

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

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

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Introduction, the Macroeconomic environment and banking sector in the Republic of Croatia in 2021, and the Management Report. We have nothing to report in this respect.

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

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

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

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

Independent Auditors’ report to the shareholders of J&T banka d.d. (continued)

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

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

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

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

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

Report on Other Legal and Regulatory Requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/20, 119/2021), the Management Board of the Bank has prepared the schedules ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2021, and of the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements. The Schedules are set out on pages 125 to 132, and the Reconciliation on pages 133 to 142. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements set out on pages 33 to 124 on which we have expressed an opinion as set out above.

We were appointed by those charged with governance on 31 May 2021 to audit the financial statements of J&T banka d.d. for the year ended 31 December 2021. Our total uninterrupted period of engagement is six years, covering the periods from 1 January 2016 to 31 December 2021.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 18 March 2022;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
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18 March 2022

Katarina Kecko
Director, Croatian Certified Auditor

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

Statement of financial position as at 31 December 2021

[HRK'000]	Notes	31 December 2020	31 December 2021
ASSETS			
Amounts with the Croatian National Bank	6	148,658	161,683
Cash and accounts with other banks	7	122,015	89,324
Placements with other banks	8	477	476
Financial assets - securities	9	291,139	174,729
Loans and advances to customers	10	434,179	351,196
Property and equipment	11	8,137	14,906
Intangible assets	12	8,480	6,767
Other assets	13	33,496	13,852
TOTAL ASSETS		**1,046,581**	**812,933**
LIABILITIES			
Deposits from customers	14	843,619	582,488
Deposits and borrowings from banks	15	8,054	52,485
Subordinated debt	16	47,104	42,552
Provisions for liabilities and charges	17	1,060	3,039
Other liabilities	18	32,191	16,899
Deferred tax liability	29 c)	446	75
TOTAL LIABILITIES		**932,474**	**697,538**
EQUITY			
Share capital	19.a	307,085	307,085
Share premium	19.b	21,435	21,435
Treasury shares	19.d	(2,202)	(2,202)
Other reserves	19.c	3,792	3,792
Fair value reserve	19.e	2,489	802
Accumulated loss	19.f	(218,492)	(215,517)
TOTAL EQUITY		**114,107**	**115,395**
TOTAL LIABILITIES AND EQUITY		**1,046,581**	**812,933**

The significant accounting policies and other notes on pages 38 to 124 form an integral part of these financial statements.

Income statement for 2021

[HRK'000]	Notes	2020	2021
Interest income calculated using the effective interest method	20	24,976	27,567
Interest and similar charges	21	(8,311)	(4,712)
Net interest income		**16,665**	**22,855**
Fee and commission income	22	5,249	3,501
Fee and commission expense	23	(777)	(757)
Net fee and commission income		**4,472**	**2,744**
Net gains and losses from financial assets at fair value through profit or loss and financial assets at fair value through OCI	24	68	493
Net foreign exchange gains and FX trading income	25	2,401	2,345
Other income	26	2,734	5,749
Trading and other income		**5,203**	**8,587**
Personnel expenses	27a	(15,809)	(14,793)
Depreciation and amortisation	11, 12	(7,207)	(5,011)
Other administrative expenses	27b	(11,212)	(8,794)
Expected credit losses	28a	(2,453)	3,852
Provisions	28b	(5,968)	(6,465)
(LOSS) / PROFIT BEFORE TAX		**(16,309)**	**2,975**
Income tax expense	29a	(283)	-
(LOSS) / PROFIT FOR THE YEAR		**(16,592)**	**2,975**
EARNINGS PER SHARE (in HRK)	**30**	**(0.54)**	**0.10**

The significant accounting policies and other notes on pages 38 to 124 form an integral part of these financial statements.

Statement of comprehensive income for 2021

[HRK'000]	2020	2021
Profit/ (loss) for the year	**(16,592)**	**2,975**
Items that will be reclassified subsequently to profit or loss:		
Financial assets at fair value through OCI - net change in fair value	578	(2,376)
Financial assets at fair value through OCI – reclassified to profit or loss	(84)	509
Financial assets at fair value through OCI - net changes in ECL allowance	(330)	(191)
Financial assets at fair value through OCI - deferred tax	(89)	371
Other comprehensive (loss)/gain, net of tax	**75**	**(1,687)**
TOTAL COMPREHENSIVE INCOME/(LOSS)	**(16,517)**	**1,288**

The significant accounting policies and other notes on pages 38 to 124 form an integral part of these financial statements.

Statement of changes in equity

[HRK'000]	Notes	Share capital	Share Premium	Treasury shares	Other reserves	Fair value reserve	Accumulated loss	Total
Balance at 1 January 2020		**307,085**	**21,435**	**(2,202)**	**3,792**	**2,414**	**(201,900)**	**130,624**
Total comprehensive income								
Loss for the year		-	-	-	-	-	(16,592)	(16,592)
Financial assets at fair value through OCI:								
Net change in fair value		-	-	-	-	*578*	-	*578*
Reclassified to profit or loss		-	-	-	-	*(84)*	-	*(84)*
Net changes in ECL allowance		-	-	-	-	*(330)*	-	*(330)*
Deferred tax on movements in fair value reserve		-	-	-	-	*(89)*	-	*(89)*
Total comprehensive income/(loss)		-	-	-	-	**75**	**(16,592)**	**(16,517)**
Balance at 31 December 2020		**307,085**	**21,435**	**(2,202)**	**3,792**	**2,489**	**(218,492)**	**114,107**
Balance at 1 January 2021		**307,085**	**21,435**	**(2,202)**	**3,792**	**2,489**	**(218,492)**	**114,107**
Total comprehensive income								
Profit for the year		-	-	-	-	-	2,975	2,975
Financial assets at fair value through OCI:								
Net change in fair value		-	-	-	-	*(2,376)*	-	*(2,376)*
Reclassified to profit or loss		-	-	-	-	*509*	-	*509*
Net changes in ECL allowance		-	-	-	-	*(191)*	-	*(191)*
Deferred tax on movements in fair value reserve		-	-	-	-	*371*	-	*371*
Total comprehensive income/(loss)		-	-	-	-	**(1,687)**	**2,975**	**1,288**
Balance at 31 December 2021		**307,085**	**21,435**	**(2,202)**	**3,792**	**802**	**(215,517)**	**115,395**

The significant accounting policies and other notes on pages 38 to 124 form an integral part of these financial statements.

Statement of cash flows for 2021

[HRK'000]	Notes	2020	2021
Cash flow from operating activities			
Profit/(loss) for the year		(16,592)	2,975
Adjustments:			
Depreciation, amortization and value adjustments of property and equipment and intangible assets	11, 12	7,207	6,474
Write-offs of property and equipment		2,565	6,325
Impairment losses and provisions without foreclosed assets	28	2,861	(1,448)
Net interest income		(16,747)	(22,991)
Net gains on financial assets at fair value through profit or loss and financial assets at fair value through OCI	24	(68)	(493)
		(20,774)	**(9,158)**
Changes in operating assets and liabilities			
Net (increase)/decrease in loans and advances to customers		(65,508)	81,969
Net (increase)/decrease in placements with other banks		(10)	1
Decrease in obligatory reserves		20,255	6,909
Net decrease in other assets		3,874	19,644
Net increase/(decrease) in deposits from customers		13,949	(259,928)
Net (decrease) in other liabilities and provisions		(843)	(28,026)
Movements in operating assets and liabilities		**(28,283)**	**(179,431)**
Interest received		22,088	34,146
Interest paid		(9,263)	(5,861)
Net cash inflow/outflow from operating activities		**(36,232)**	**(160,304)**
Receipts from/(purchase of) investment funds		3,572	31,329
Purchase of debt securities		(40,505)	(32,126)
Proceeds from debt securities		74,525	114,140
Acquisition of property and equipment and intangible assets		(348)	(4,163)
Net cash outflow / inflow from investing activities		**37,244**	**109,180**
Receipts from borrowings		74,336	104,406
Repayment of borrowings		(76,782)	(59,980)
Repayment of lease liabilities		(2,691)	(1,592)
Cash payment for the interest portion of lease liabilities		(88)	(136)
Increase/(decrease) in subordinated debt		338	(4,465)
Net cash outflow from financing activities		**(4,887)**	**38,233**
Net (decrease)/increase in cash and cash equivalents		(3,875)	(12,891)
Cash and cash equivalents at the beginning of the year		231,594	227,719
Cash and cash equivalents at the end of the year	**32**	**227,719**	**214,828**

The significant accounting policies and other notes on pages 38 to 124 form an integral part of these financial statements.

Notes to the financial statements

1. General information

J&T banka d.d. ("the Bank") Member of the J&T Finance Group, dated back to 1994, when the Brodsko-posavska banka d.d. was incorporated in Slavonski brod, to build upon the tradition of the former Varaždinska banka, it changed its name on December 27, 2004 to Vaba d.d. banka Varaždin and relocated to Varaždin.

The Czech bank J&T a.s. recapitalised the bank with HRK 75 million in June 2014 and increased the Bank's capital to HRK 128.6 million. During 2015, J&T has further invested in the Bank's capital and the share capital was increased to HRK 231.1 million. During 2016, another increase of the share capital of the Bank was conducted in the amount of HRK 76 million by the majority shareholder of the Bank - J&T Bank a.s. so the new share capital amounts to HRK 307.1 million, and J&T Banka a.s. holds a total of 25,350,000 shares tags BPBA-R-B or equity of 82.55%.

From 1 January 2017 the Bank started operating under the name J&T banka d.d.

These financial statements were approved by the Board on 18 March 2022 for submission to the Supervisory Board.

2. Basis of presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia. The statutory accounting requirements for banks in the Republic of Croatia as of 31 December 2021 are based on the recognition and measurement requirements of International Financial Reporting Standards as adopted in the EU ("EU IFRS" or "the Standards") and the CNB's banking regulations.

In these financial statements, balances in the statement of financial position and the related notes as of 31 December 2021 and 31 December 2020 are aligned to the EU IFRS recognition and measurement requirements, in all material respects.

The principal differences between the accounting regulations of the CNB (primarily the requirements of the Decision) and recognition and measurement requirements of EU IFRS are listed below. The differences identified do not raise material departure from the recognition and measurement requirements of EU IFRS as of 31 December 2021 and 31 December 2020:

- CNB required credit institutions to recognise expected credit losses, in the income statement, for eligible exposures carried at amortised cost classified in Stage 1 and Stage 2 that could not be less than 0.8% of the gross carrying amount of eligible exposures, including exposures to financial institutions and sovereigns. According to the provisions of Article 21 (2) of the Decision, from January 2020 banks in the Republic of Croatia are no longer obliged to recognise allowance for expected credit losses on stage 1 and stage 2 exposures carried at amortised cost and eligible off- balance sheet exposures of at least 0.8%. Following the specific CNB guidance (Q&A 2019-712), any resulting difference in expected credit losses is recorded in income statement.
- The Decision on the classification of exposures into risk categories and the method of determining credit losses ("the Decision") prescribes minimum levels of impairment losses against certain non-performing exposures for which individual impairment has been recognised, regardless of the net present value of expected future cashflows, so that the impairment calculated may be different from the impairment loss required to be recognised in accordance with the EU IFRS requirements.
- The Bank recognises provisions for court cases by incorporating the probability of loss into measurement of the provision (i.e. if the probability of loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which require the full amount of potential loss to be recognised where it is probable that the court case will be lost.

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(a) Statement of compliance (continued)

- Suspended interest represents the accrued uncollected interest on assets which are classified as credit-impaired. Upon reclassification the Bank provides the full amount of the accrued uncollected interest in the income statement, and ceases to recognise any further interest in the statement of financial position and recognises suspended interest off-balance-sheet until collected in cash from the borrower. This policy is not in accordance with IFRS 9 *Financial Instruments* which requires interest income on credit-impaired financial assets to be recognised using the effective interest rate method.

The principal accounting policies applied in the preparation of these financial statements are summarised below. The Bank has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except as disclosed above. Where specific accounting policies are aligned with accounting principles set out in EU IFRS, reference may be made to certain Standards in describing the accounting policies of the Bank. Unless otherwise stated, these references are to Standards as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") applicable as at 31 December 2021.

(b) Basis of measurement

The financial statements are prepared on a fair value basis for financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

(c) Use of estimates and judgments

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

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

Judgements made by the management in application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in future periods are discussed in Note 5.

(d) Functional and presentation currency

The Bank's financial statements are presented using the currency of the primary economic environment in which the Bank operates (the functional currency), Croatian kuna (HRK). Amounts are rounded to the nearest thousand, unless otherwise stated.

The exchange rates of currencies, in which the majority of the Bank's assets and liabilities are denominated, are used for the translation of the Bank's assets and liabilities and as at 31 December 2021 they were as follows: EUR 1 = HRK 7.517 (2020: EUR 1 = HRK 7.537) and USD 1 = HRK 6.644 (2020: USD 1 = HRK 6.139).

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(e) Application of new and revised Standards

The Bank has consistently applied the accounting policies as set out in the Notes below to all periods presented in these financial statements. New standards effective from 1 January 2022 do not have a material effect on the Bank's financial statements.

(f) Going concern

The financial statements have been prepared on a going concern basis.

In 2021, the Bank realised a net profit of HRK 2.98 million (2020: net loss of HRK 16.6 million) and at 31 December 2021 had accumulated losses of HRK 215.5 million (31 December 2020: 218.5 million). Due to significant losses in the past, the Bank had several recapitalisations by the majority owner since 2014 in order to maintain capital adequacy prescribed by the CNB.

As disclosed in Note 4.1.5, the TIER 1 capital adequacy ratio at 31 December 2021 amounts to 22.61% and is above the minimum rate prescribed by the CNB and the Bank's total capital adequacy ratio amounts to 26.17%.

Although the outbreak of the COVID-19 pandemic in 2020 and time-related closure measurements caused negative economic effects, during 2021 customer business is generally satisfactory and further timely repayment is expected. Considering the unpredictability of the economic recovery and the impact of the closure measures adopted, the Management Board believes with reasonable certainty that the Bank will have sufficient resources to continue operations for at least 12 months from the reporting date and that the going concern basis of preparation of financial statements is appropriate.

As disclosed in Note 39, the going concern assumption has been influenced by systemic threats associated with the COVID-19 (coronavirus) outbreak and the general economic recovery. The Bank is continuing to monitor the situation carefully and taking precautions in line with the recommendations of the World Health Organization and local authorities. Critical activities and processes are constantly monitored, assessing the potential evolutions and impacts on the business activities.

Note 39 and note 40 provide further details of the facts and circumstances considered by the Management Board in concluding on the going concern assumption.

Notes to the financial statements (continued)

3. Significant accounting policies

(a) Interest income and expense

Interest income and expense are recognized in profit or loss as it arises for all interest-bearing financial instruments, including those measured at amortized cost and FVOCI debt securities, taking into account the effective rate of return of the asset / liability or the applicable variable rate. Interest income and expense includes amortization of the discount or premium, as well as other differences between the initial carrying amount of the interest-bearing financial instrument and the amount by maturity, which is calculated using the effective interest rate.

An effective interest rate is the rate at which the expected future cash outflows or receipts are discounted over the expected lifetime of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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

For purchased or originated credit-impaired financial assets decreased for credit losses - POCIs, the EIR adjusted for credit risk at the amortized cost of the POCI assets is applied in the calculation of interest income. The Bank suspends calculation of interest in the balance sheet and keeps the suspended interest off-balance until the debtor makes a cash payment.

In calculating the effective interest rate, the Bank does not take into account future credit losses. The calculation includes all fees and percentage points paid or received between the contracting parties which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(b) Fee and commission income and expense

Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by the Bank. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part for itself or has retained a part at the same effective interest rate as other participants. Portfolio and other management service fees are recognised based on the applicable service contracts.

(c) Dividend income

Dividend income from equity securities is recognised in the income statement when the rights to receive the dividend are established.

(d) Net realised gains and losses from financial assets at fair value through profit or loss and financial assets at fair value through OCI

The category includes realised and unrealised gains and losses on debt and equity securities held for trading and other financial instruments at fair value through profit or loss.

Net gains and losses on derecognition of financial assets at fair value through other comprehensive income refer to gains and losses from sale of debt securities classified as FVOCI.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(e) Net foreign exchange gains and losses

Net gains and losses from foreign exchange include unrealised and realised gains and losses arising from spot dealings in foreign currencies.

(f) Foreign currencies

Foreign currency transactions are translated into the respective functional currency using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate prevailing at that date.

Foreign currency differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into HRK at the foreign exchange rate prevailing at the date on which their fair value was determined.

Non-monetary assets and items that are carried at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction and are not re-translated.

Changes in the fair value of securities denominated in foreign currency classified as fair value through OCI are separated between exchange rate differences arising from changes in the amortized cost of securities and other changes in the carrying amount of the security. Foreign exchange differences on securities classified as FVOCI are recognised in profit or loss, while other changes in carrying amount are recognised in other comprehensive income.

Foreign exchange differences are recognized in the income statement as part of exchange gains or losses on the sale of monetary assets and liabilities. Foreign exchange differences on non-monetary financial assets, are included within other comprehensive income.

(g) Financial instruments

i) Classification

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

i) Classification (continued)

Business Model Assessment

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

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

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

Estimate whether contractual cash flows are solely principal and interest payments

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

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

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

Reclassification

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

Loans and advances to customers

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

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

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

i) Classification (continued)

Financial assets - investment securities

The 'financial assets - investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at fair value through profit and loss account (FVTPL) or designated as at fair value through profit and loss account (FVTPL); these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at fair value through other comprehensive income (FVOCI); and
- equity investment securities designated as at fair value through other comprehensive income (FVOCI).

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

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

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

The Bank decides to present in other comprehensive income (OCI) changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income (OCI). Cumulative gains and losses recognised in other comprehensive income (OCI) are transferred to retained earnings on disposal of an investment.

ii) Recognition and derecognition

Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders. Regular way purchases and sales of financial assets are recognised on the settlement date. The settlement date is the date that an asset is delivered to or by the Bank and while the underlying asset or liability is not recognised until the settlement date, changes in the fair value of the underlying financial assets and liabilities at fair value through profit or loss and FVOCI financial assets are recognised starting from the trade date.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

ii) Recognition and derecognition (continued)

Derecognition of financial assets due to substantial modification of terms and conditions

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

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

Modifications of financial assets which do not result in substantially different cash flows

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

Derecognition of financial assets other than for substantial modification

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

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

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

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

ii) Recognition and derecognition (continued)

Derecognition of financial assets other than for substantial modification (continued)

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.
Collaterals (e.g. bonds) furnished by the Bank under standard repurchase agreements and borrowing transactions are not dereocognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price and the criteria for derecognition are therefore not met.

Derecogntion of financial liabilities

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

iii) Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets at fair value through profit or loss are initially recognised at fair values, and transaction costs are directly recognised in profit or loss.

After initial recognition, the Bank measures financial instruments at fair value through profit or loss at their fair value, without any deduction for selling costs.

Loans and receivables and investments measured at amortised cost and financial liabilities not designated at fair value through profit or loss are measured at amortised cost.

iv) Gains and losses

Gains or losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the income statement.

Gains or losses arising from a change in the fair value of FVOCI financial assets are recognised directly in the other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on financial assets at FVOCI are recognised in profit or loss. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in other comprehensive income.

Upon sale or other derecognition of FVOCI financial assets, any cumulative gains or losses on the instrument are transferred to the income statement. Gains or losses arising from financial assets and financial liabilities carried at amortised cost are recognised as interest in profit or loss over the period of amortisation. Gains or losses may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired. Dividend income is recognised in the income statement.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

v) Determination of fair value of financial instruments

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instruments is not active, for unlisted securities, or, if for any reason, fair value cannot be reasonably measured by market price, then the Bank establishes fair value using a valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction The Bank recognises the transfer between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is entirely supported by observable market data. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets

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

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

No impairment loss is recognised on equity investments and financial assets at fair value through profit or loss (FVTPL).

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

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

12-month expected credit losses (ECL) are the portion of expected credit loss (ECL) that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month expected credit loss (ECL) is recognised are referred to as "Stage 1 financial instruments", or A-1 risk category by CNB.

Life-time expected credit losses (ECL) are the expected credit losses (ECL) that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime expected credit loss (ECL) is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments", or A-2 risk category by CNB.

Total impairment of exposures classified in risk categories A-1 and A-2 during the period until 31 December 2019 may not be less than 0.8% of the gross book value except for financial assets measured at fair value through other comprehensive income. Pursuant to the Decision on the classification of exposures into risk groups and the method of determining credit losses, from 1 January 2020 the Bank is no longer obligated recognise allowance for expected credit losses on stage 1 and stage 2 exposures carried at amortised cost and eligible off- balance sheet exposures of at least 0.8%.

Expected Credit Loss Measurement (ECL)

For the purpose of assessing the expected credit losses, the Bank prescribes processes and control mechanisms for the development and application of estimation methods of expected credit losses with a goal to ensure their integrity and timely inclusion of relevant data.

Probability of default (PD) provides an estimate of the probability that the borrower will not be able to fulfil his obligations. For PD calculations loans and advances are divided into corporate and retail. Corporate loans are divided into homogeneous groups, based on type of product, while retail is a separate homogeneous group. For each homogeneous groups, the default rate is calculated based on available internally developed historical data. In order to incorporate future information adequately into macroeconomic scenarios, the Bank uses adjustments of the calculated PD to macroeconomic expectations. The macroeconomic scenario is determined on the basis of customised publicly available information. To determine the PD (probability of default) for exposures to sovereign, central banks and financial institutions or exposures rated by an external credit rating institution, the Bank uses data available on the Moody's Investor Service website. The assigned PD is based on counterparty external credit rating.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets (continued)

Expected Credit Loss Measurement (ECL) (continued)

LGD (Loss Given Default) represents a loss due to default status. For unsecured exposures for which an external credit rating is available, the Bank uses the basic approach prescribed by the BIS (Bank for International Settlement) and LGD of 45% is applied (Basel Committee on Banking Supervision Discussion Paper Regulatory treatment of accounting provisions, October 2016). For securities managed under the Financial Assets model through other comprehensive income, and primarily related to corporate bonds, the Bank uses the internal rating of the parent company (J&T bank a.s.) to calculate the ECL ("Expected credit loss"). For financial instruments that relate to exposures to financial institutions which are supervised by the central bank, but do not have an established rating of the recognized ECAI, the Bank applies a single provisioning percentage of 0.80% of the gross carrying amount.

Restructuring of financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Definition of default

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, loan commitments and financial guarantees are credit-impaired (referred to as 'Stage 3 financial assets').

The borrower is considered as defaulted and therefore Stage 3 in cases when the borrower is more than 90 days past due on any material credit obligation to the Bank or when the borrower is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security.

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

- significant financial difficulties of the debtor;
- breach of contract such as failure to complete or due to maturity;
- restructuring of a loan or an advance by the Company under conditions that the Company would not consider in the normal circumstances;
- it is probable that the borrower will enter bankruptcy or another type of financial reorganisation.

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

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets (continued)

Presentation of impairment allowance for expected credit loss (ECL) in the statement of financial position

Loss allowances for expected credit loss (ECL) are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the asset;
- credit lines and issued guarantees: in general, as provisions;
- when the financial instrument includes a drawn and an undrawn component, and the Bank can not identify the expected credit loss (ECL) separately: The Bank shows a loss for both as a deduction from the gross carrying amount of the used component;
- Debt instruments measured at fair value through other comprehensive income (FVOCI): no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

vii) Offsetting of financial instruments

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(h) Specific financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on bank accounts, placements with other banks with original maturities of three months or less, and items in the course of collection.

Derivative financial instruments

In accordance with its investment policy, the Bank does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied. Derivative financial instruments are initially recognised at fair value which is the value of the consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is considered to represent an embedded derivative. Unless it is inconsistent with the requirements of the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the primary contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealised gains and losses recognised in the income statement, unless there is no reliable measure of their fair value.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(h) Specific financial instruments (continued)

Treasury bills and debt securities

Treasury bills and debt securities that the Bank holds for short-term gain purposes are carried at fair value. The Bank uses treasury bills for liquidity purposes.

Equity securities and investments in investment and other funds

Equity securities and investments in open-ended and close-ended investment funds are classified as asset measured at fair value through profit or loss or asset measured through other comprehensive income.

Placements with banks

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

Current accounts and deposits from banks

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

Deposits from customers

Deposits are classified as other liabilities and initially measured at fair value plus transaction costs, and subsequently stated at the amortised costs using the effective interest method.

Loans and advances to customers

Loans and advances to customers are presented net of impairment losses to reflect the estimated recoverable amounts or at fair value for loans and advances that are measured at fair value.

Borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings as interest expense.

Sale and repurchase agreements

The Bank enters into purchases and sales of investments under agreements to resell or repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to such commitments to resell them at future dates are not recognised in the statement of financial position. The amounts paid are recognised as loans to either banks or customers, collateralised by the underlying security from the repurchase agreement. Securities sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of investments are reported as collateralised liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

Financial guarantee

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance-sheet accounts and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit-card limits. Such financial commitments are recorded in the Bank's statement of financial position if and when they become payable.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, being the premium received, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Financial guarantees are included within other liabilities.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(i) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16. At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

Right-of-use assets

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments and
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date

The lease liability is measured at amortised cost using the effective interest method.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(j) Income tax

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

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(j) Income tax (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which the carrying value of assets and liabilities is expected to be recovered or settled based on tax rates enacted at the reporting date.

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

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the balance sheet. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit. At each balance sheet date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

(k) Property and equipment

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

Recognition and measurement

Property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.
Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

	2020	2021
Buildings	33 years	33 years
IT equipment	5 years	5 years
Furniture and equipment	7-15 years	7-15 years
Motor vehicles	4 years	4 years
Other assets	10 years	10 years

Residual values are not taken into account. Depreciation methods and estimated useful lives are reassessed at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the income statement.

(l) Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairment. Expenditure on development activities is recognised as intangible assets if all of the requirements of IAS 38 "*Intangible Assets*" are met. Amortisation is provided on the straight-line basis over the estimated useful lives of intangible assets. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(l) Intangible assets (continued)

Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

	2020	2021
Leasehold improvements	5 years	5 years
Software	5 years	5 years
Applicative software developed by the Bank	10 years	10 years
Licenses	5 years	5 years

(m) Impairment of non-financial assets

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

All non-financial assets previously impaired, are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation/depreciation, if no impairment had been recognised.

(n) Provisions for liabilities and charges

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

Provisions for liabilities and charges are maintained at a level which the Bank's Management Board believes is adequate to absorb probable future losses. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of various categories of transactions and other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If an outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

(o) Employee benefits

Pension obligations

The Bank pays contributions to state-owned institutions and obligatory pension funds managed by privately owned management companies, in accordance with legal requirements or by individual choice. The Bank has no further payment obligations once the contributions have been paid. Pension contributions are recognised as staff costs in the income statement as they accrue.

Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the reporting date. The projected discounted present value unit method is used for the calculation of the present value of the liability, using discount rates that, in the opinion of the Bank's Management Board, best represent the time value of money.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(o) Employee benefits (continued)

<u>Termination benefits</u>

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(p) Equity

Issued share capital represents the nominal value of paid-up ordinary shares classified as equity and is denominated in HRK. The premium on the issued shares presents the surplus of the fair value above the nominal value of the issued shares.

<u>Accumulated losses</u>

Accumulated losses include losses from previous periods and loss for the year.

<u>Loss per share</u>

The Bank presents basic loss per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

<u>Treasury shares</u>

Acquisition of treasury shares is carried out in the cases provided by the Companies Act, primarily in order to eliminate possible damage. Purchased treasury shares are stated at cost of purchase. The difference realized through the sale of treasury shares at the cost above the cost of acquisition is shown in favor of the capital gains account, and the difference realized below the cost of acquisition represents a capital loss.

(q) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance-sheet records and primarily comprise guarantees, letters of credit and undrawn revolving loan commitments. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.

(r) Foreclosed assets

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

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the cost of the related loans and advances and the current fair value of such assets. The Bank's intention is mainly to sell such assets, which, however, in certain limited cases may end up being used by the Bank.

Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

4. RISK MANAGEMENT

4.1 Internal assessment of risk of the Bank's operations

This section provides details regarding the Bank's exposure to risk and describes the methods used by the management to identify, measure and manage risks in order to safeguard capital. The most significant types of financial risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

For the most significant risks, the Bank adopted strategies and policies which include objectives and basic principles of risk assumption and management, define its risk profile and risk appetite and the compliance of the Bank's risk profile and the level of capital.

The Bank has established a risk management system appropriate to the nature, scope and complexity of the business, and the risk profile of the Bank, which includes an adequate strategy, policy and other internal regulations for risk management, organisational structure with defined authorities and responsibilities for risk management, risk management process and system of internal controls. The Bank regularly monitors and checks the risk management system and identifies and assesses the risks to which it is or expects to be exposed in its operations.
As disclosed within the separate Note 39., COVID-19 outbreak constitutes a significant event which has significantly impacted the Bank's risk management.

4.1.1 Credit risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties. Credit risk can be defined as a risk of financial loss of the Bank by a counterparty failing to discharge its obligation.

The Bank manages its credit risk exposure in accordance with the legislative requirements and regulations of the Croatian National Bank, as well as in accordance with its internal procedures. The Bank has established a system for monitoring its entire loan portfolio. The Credit Committee, the Supervisory Board and the Audit Committee are regularly informed of the quality of the portfolio. The analysis of the loan portfolio includes, at a minimum, an analysis of risk categories, overdue days and total exposure. Report on Credit Risk and Concentration Risk is prepared by the Risk Management Sector. Based on the analysis results, decisions are made on the Bank's strategy toward the counterparty, group of related parties, certain industry or economic sector, geographical region, risk product type, certain type of collateral, etc.

Risk Appetite Statement in the area of credit risk and Credit Risk Management Policy and Strategy is the main document, i.e. a framework for managing credit risk, which is complemented with procedures, instructions and other documents that define the following in more detail:

- credit risk appetite,
- clear lines of authority and responsibility,
- way of assumption, overcoming and management of credit risk,
- defining the credit process and establishing a system of control and reporting of credit risk exposure,
- methodology for determining credit worthiness, measurement and assessment of credit risk for the duration of the repayment / validity of risky products,
- procedures for controlling and monitoring credit risk, including the establishment of exposure limits,
- maximum exposure limits regarding risk products with common risk factors,
- procedures and measures for approval of deviations from the application of existing policies, in case such deviations should occur and
- stress testing as a preparation of the Bank for possible crisis situations.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit risk assessment

The process of credit risk assessment of placements comprises the following:

- debtors' creditworthiness,
- timely settlement of due instalments and
- collateral quality.

Creditworthiness is assessed for each loan application, and thereafter, as a minimum once a year subsequent to the delivery of the annual financial statements by the clients to which the Bank is exposed.

Monitoring of placements and contingent liabilities includes continuous assessment as to whether elements exist which would indicate a deterioration of the customer's financial position or an increase in risk due to the decrease of collateral value.

The Bank's effort, whenever possible, is to reconcile the customers' ability to pay in accordance with prevailing market conditions by way of overall restructuring of the debtors' operations or financial position. This should ultimately lead to a better settlement of liabilities to the Bank and improve the liquidity of customers in order to ensure business stability and sustainability over the long term.

The impact of the COVID-19 pandemic is still present and, although the prospects for future recovery are better, it represents a significant source of uncertainty which requires management to apply judgements and estimates in assessing its impact on the financial position and performance. During the financial year 2020, COVID-19 pandemic affected Bank's economic activities and the resulting profitability. The slow-down of economic activities has determined a reduction of all the categories of commercial revenues (interests and commissions) and financial revenues (trading results) due to the associated downturn of financial markets.

The course of the COVID-19 pandemic during the year continued to dictate economic activity, and the conservative attitude of clients in preparing new investments was noticeable, given the present uncertainty regarding time and pace of recovery, but also the impact of restrictive measures imposed to prevent the spreading of the virus.

The Bank continued to focus on the impact of the external environment on the risk profile of clients, in particular taking into account the continued impact of the COVID-19 pandemic. Most of the bank's clients have successfully adapted their operations in the conditions of a long-term pandemic, and despite the use of grants for business support, they were not dependent on them due to sufficient income from their own operations. The main risks that could jeopardize business and further regular repayment remained systemic.

As at the system level, there was a decrease in lending activity. However, the loans were not renewed or refinanced with respect to COVID, but the repayment continued as initially agreed.

The development of the epidemiological situation in 2021 was extremely favorable during the summer and until the end of autumn, which enabled extremely good economic performance. Nevertheless, the negative risks associated with the further course of the pandemic will remain. Recovery to pre-crisis levels is still unlikely, but negative forecasts from previous periods have been significantly mitigated.

The amount of loan loss provisions is determined considering the current and expected classification of credit exposures and credit parameters (Probability of Default, Loss Given Default and Exposure at Default) which, in accordance with IFRS 9 incorporate among other factors forward looking information and the expected evolution of the macro-economic scenario.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Classification of placements into risk categories

The risk classification process and classification criteria into risk categories and impairment for expected credit losses is defined by the CNB's Decision on the Classification of Exposure to Risk Groups and the Method of Determining Credit Losses and IFRS 9 *Financial instruments*.

The Bank classifies its loan exposures into two groups: small loan portfolio (group of related exposures below HRK 200 thousand) and individually significant exposures (group of related exposures exceeding HRK 200 thousand). Impairment of small loan portfolio exclusively depends on the ageing of overdue amounts, while impairment of individually significant exposures are individually assessed for impairment, as it was earlier described in Note 3 g) vi).

Almost all provisions for expected credit losses for the small loan portfolio are measured on a collective basis. The portfolio of gross exposures for which ECL provisions are measured on a collective basis as at 31 December 2021 amounted to HRK 3,117 thousands (2020: 25,273 thousands). Provisions for expected credit losses for individually significant exposures in to amount of HRK 368,892 thousands as at 31 December 2021 are made on an individual basis (2020: 447,151 thousand).

On initial recognition, financial assets subject to the expected credit loss model are classified in risk category A-1, except in the case of purchased or created financial assets less credit losses when the indicator POCI is added to the risk category.

The Bank reassesses the risk of each exposure subject to the expected credit loss model at least every 3 months, and possibly more frequently if necessary. The Bank assesses the credit quality of exposures throughout the contractual relationship and classifies those exposures into appropriate risk groups based on the following general classification criteria:

1) the debtor's creditworthiness,

2) regularity in the settlement of the debtor's obligations to the credit institution and other creditors represents the debtor's ability to fully settle its obligations to the Bank on the basis of principal, interest, fees and other grounds within the agreed terms,

3) the quality of the security for individual exposures, which is determined on the basis of market liquidity, documentation and the ability to exercise supervision by the bank, the possibility of forced collection and value in relation to the exposure based on placements / off-balance sheet liabilities.

In order to assess the impact of the crisis on its clients portfolio, the Bank introduced more frequent reviewing of the performance of the client portfolios. Also, in line with coordinated approach of accounting bodies and regulator, the Bank has assessed expected losses of its clients which are in moratoriums by assessing whether difficulties that the clients are facing represents only temporary economic shock, in which case moratoria and concession approved to the clients were not considered to represents significant increase in credit risk.

The economic environment remains uncertain and future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts) depending on the longevity of the COVID-19 pandemic and related containment measures, as well as the support measures.

Increased credit risk arises in the event of any of these conditions occurring and indicates the reclassification of exposures from A1 to A2:

- the borrower is late in payment of its overdue exposures by more than 30 days at the reporting date (based on materiality threshold), but is still within deadlines not exceeding 90 days (based on materiality threshold),,
- in the last 3 months, the borrower has been late in paying its overdue exposures more than 30 days (based on materiality threshold), and
- existence of "forbearance" measures.

In addition to the day of delays mentioned in the previous paragraph, the Bank prescribes additional indicators for large portfolio that are monitored and indicate increased credit risk. These are indicators of a qualitative and quantitative nature closely related to the client's business. The occurrence of any of the indicators indicates a reclassification of exposures.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Classification of placements into risk categories (continued)

In accordance with regulatory guidance, customers were able to obtain a moratorium of up to six months (for significantly impacted industries like tourism up to some twelve months). Such moratoria would not necessarily have been considered forbearance. In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related moratoria were not considered forborne. However, any support provided beyond completion of a moratorium is considered forbearance.

Those who are deemed either (a) to require a prolonged timescale to return to within the Bank's risk appetite, (b) not to have been viable pre-COVID-19, or (c) not to be able to sustain their debt once COVID-19 is over, will trigger a SICR and, if concessions are sought, are categorised as forborne, in line with regulatory guidance.

The Bank considers that default status has occurred in the following conditions and refers to the reclassification of exposures to the minimum B1 risk category.

- the debtor has failed to fulfil its overdue obligation for more than 90 days under any significant credit obligation to the credit institution, its parent company or any of its subsidiaries
- the Bank considers it probable that the debtor will not fully meet its obligations to the Bank, its parent company or any of its subsidiaries without considering the possibility of collateral collection. In this regard, the Bank prescribes indicators for large portfolio that, in addition to the day of delay, indicate default status. These are indicators of a qualitative and quantitative nature closely related to the client's business.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

During December 2020, Bank has implemented and adopted new regulatory requirements from EBA (European Banking Authority) related to New Definition of Default (New DoD) coming into force latest at 31 December 2020. The New DoD did not have a significant financial impact on exposure risk classification nor on impairment losses.

After calculating the required impairment, the Bank allocates exposures to risk categories depending on the level of the calculated loss (in accordance with the CNB Regulations).

1. **Risk category A**

   A1 - newly approved exposures at the beginning of the contractual relationship and exposures where no significant increase in credit risk was identified since initial recognition (calculation of expected credit losses over a twelve-month period)

   A2 - exposures where a significant increase in credit risk was recognized since initial recognition (calculation of expected credit losses over the lifetime of the financial asset)

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

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

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

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

3. **Risk category C** - non-recoverable placements with impairment at the amount of 100% exposure.

Exposures classified in risk groups A-1 and A-2 represent performing exposures, while exposures in risk groups B and C represent non performing exposures.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 3 consecutive months, or 12 months in case Forbearance activities were previously made on the defaulted obligor.
Once cured, the decision whether to classify in Stage 2 or Stage 1 depends on whether there has been a significant increase in credit risk since initial recognition.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Assets exposed to credit risk

The Bank's primary exposure to credit risk arises from loans and advances to customers, debt securities, amounts with the CNB, accounts with banks and receivables. In addition, the Bank is exposed to credit risk arising from off-balance-sheet items, through commitments arising from unused facilities and guarantees issued. Exposures to banks and other assets that are not presented at fair value are also considered a credit risk where the credit risk is not the primary risk of impairment. The table below presents the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is presented net of impairment for expected credit losses before the effect of mitigation through collateral agreements.

[HRK'000]	Notes	31 December 2020	31 December 2021
Amounts with the Croatian National Bank	6	148,658	161,683
Placements with other banks	8	477	476
Giro accounts with other banks	7	113,237	81,303
Financial assets at fair value through OCI	9	259,826	174,729
Loans and advances to customers	10	434,179	351,196
Other assets	13	2,123	169
Total assets exposed to credit risk		**958,500**	**769,556**
Guarantees		5,231	1,475
Credit lines		12,840	14,430
Total off-balance sheet exposure to credit risk	33	**18,071**	**15,905**
Total credit risk exposure		**976,571**	**785,461**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held

In terms of credit risk mitigation, the Bank's policy is to require suitable collateral to be provided by customers prior to the disbursement of approved loans. As a rule, the Bank approves a facility if there are two independent and viable repayment sources – cash flows generated by the borrower's activity and security instruments/collateral.

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Bank's ability to recover its receivables secured by that instrument (in case of its activation), through market or court mechanisms, within a reasonable period of time. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its regular review of the adequacy of the allowance for impairment losses.

Based on the applicable acts, the Bank's standard collateral instruments are, in addition to promissory notes and bills of exchange: bank guarantees, real estate and movable asset pledges/fiduciary rights, fiduciary/pledge rights on shares and shares in open-ended investment funds, fiduciary/pledge rights on equity interests in a company, assignment of receivables from companies and government, guarantees of guarantee agencies and cash deposits.

A significant part of the corporate portfolio is secured by mortgages over different types of property. The liquidity of the real-estate market has an effect on the recoverability of assets and its timing in cases where, due to borrowers' financial difficulties, the Bank relies on collateral for collection.

The valuation of property and movable assets is performed by certified assessors included in the list of the Bank's certified assessors. The collateral value is revised based on common business practices and market movements.
The collaterals undergo a valuation process within the bank, performed by specially trained staff. In addition to the collateral valuation process, eligibility is determined for each security instrument in accordance with internal regulation. All collaterals are subject to revaluation.

For exposures over HRK 200 thousands new evaluation is done by an independent evaluator at least every 3 years while additionally for exposures over HRK 1 million new internal evaluation is done on an annual basis. In respect of non-performing exposures we have ensured adequate rotation of independent evaluators meaning that after two sequential valuations done by the same evaluator we will appoint a different one for the next evaluation.

The revaluation method depends on the type of collateral and the exposure. For real estate which secures exposures to corporate acceptable methods are comparative, income and cost method. Comparative method is mostly used for residential and commercial properties, income method for properties which main purpose is rental activities while cost method is mostly used for properties with public/community purposes, non-rental and non-comparable residential properties.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held (continued)

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

[HRK'000]	2020 Carrying amount	2020 Collateral	2021 Carrying amount	2021 Collateral
Loans and advances to customers at amortised cost				
Corporate				
Stage 1 and Stage 2	356,740	199,617	311,210	74,930
Stage 3	46,014	57,326	36,480	39,658
	402,754	256,943	347,690	114,588
Retail				
Stage 1 and Stage 2	28,927	10,837	1,017	-
Stage 3	2,498	1,110	2,489	2,551
	31,425	11,947	3,506	2,551
Total	**434,179**	**268,890**	**351,196**	**117,139**

The table below show the market value of collateral:

Type of collateral	Market value of collateral	
[HRK'000]	31 December 2020	31 December 2021
Commercial property	220,772	89,156
Cash deposits	6,170	7,704
Movable property	8,848	7,158
Other types of collateral	2,516	1,133
Residential property	30,584	11,988
Total	**268,890**	**117,139**

Assets obtained by taking possession of collateral

In 2021, the Bank did not realize new repossessions of assets in order to settle existing exposures. As at 31 December 2021, net book value of foreclosed assets amounts to HRK 6,930 thousand.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held (continued)

Restructuring of loan exposures

Restructuring of an exposure resulting with a decrease of initially contracted debtor's liabilities, is considered to be an evidence of loss. The Bank has set up a system for identifying and subsequent monitoring of restructured exposures. Restructured exposures which were classified in risk category A before restructuring, are at least classified to risk category B1. Restructured exposures which were classified in one of the sub-categories of the risk category B before restructuring are classified in that same risk category or lower after restructuring. Reclassifying a restructured exposure into a different risk category is performed immediately during the restructuring:

Restructured exposures may be classified into risk category A after a period of at least 12 months if, after the credit assessment, it is evident that the exposure meets the following conditions:

a) financial position of the client is based on reliable cash flows
b) regular repayment has been established in a period of minimum 12 months and during that period significant payments have been made (regular repayment means no debt due over 30 days)
c) there are no overdue outstanding claims in accordance with the repayment plan that is applied in accordance with the restructuring plan.

An overview of restructured balance sheet exposures by portfolio segment and by restructuring status for the year 2021 and 2020 is given below:

Amount of balance sheet exposures with forbearance measures

		31 December 2020			31 December 2021	
[HRK'000]	performing exposures with forbearance measures	non-performing exposures with forbearance measures	Total	performing exposures with forbearance measures	non-performing exposures with forbearance measures	Total
Retail	485	695	1,180	-	351	351
Corporate	-	20,918	20,918	-	12,853	12,853
Total	485	21,613	22,098	-	13,204	13,204

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank’s operations (continued)

4.1.1 Credit risk (continued)

COVID related measures

COVID-19 Moratorium
All COVID-19 moratoriums expired during the first half of 2021, but the Bank continued 12-month monitoring of post-moratorium phase. Continuously, in addition to a general overview of the client's business, the probability that the client will not be able to properly meet its obligations is assessed, taking into account the client's business, the relevant economic sector, but also the development of macroeconomic indicators in general. The assessment was carried out on the basis of analyses from reliable / reputable external sources, through expert assessment.
After the moratorium expired, regular repayment was mostly continued, but some clients were reclassified to a risk group due to the perceived unchanged level of (increased) credit risk due to the consequences of the COVID crisis.

The following table summarizes the outstanding exposures, residual maturity and related ECL impairment that benefit from COVID measures as at 31 December 2021:

(HRK ‘000)	Gross carrying amount					ECL impairment		
				Residual maturity				
	Performing	Non-performing	**Total**	Of which: expired	<= 3 months	Performing	Non-performing	**Total**
Loans and advances subject to CNB-compliant moratoria								
of which: Corporate	10,953	-	10,953	10,953	-	145	-	145
of which: Retail	-	1,845	1,845	1,845	-	-	92	92
Other loans and advances subject to COVID-19-related forbearance measures								
of which: Corporate	-	26,539	26,539	26,539	-	-	1,069	1,069
of which: Retail	-	2	2	2	-	-	2	2

The following table summarizes the outstanding exposures, residual maturity and related ECL impairment that benefit from COVID measures as at 31 December 2020:

(HRK ‘000)	Gross carrying amount					ECL impairment		
				Residual maturity				
	Performing	Non-performing	**Total**	Of which: expired	<= 3 months	Performing	Non-performing	**Total**
Loans and advances subject to CNB-compliant moratoria								
of which: Corporate	55,796	-	55,796	8,526	47,270	1,192	-	1,192
of which: Retail	4,789	-	4,789	4,589	200	62	-	62
Other loans and advances subject to COVID-19-related forbearance measures								
of which: Corporate	-	44,637	44,637	22,628	22,009	-	14,355	14,355
of which: Retail	-	133	133	121	12	-	13	13

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

COVID related measures (continued)

The Bank will continue in supporting clients and adequately assessing their creditworthiness, carefully considering the adequacy of risk classification as well as the related impact on financial reporting. In accordance with the CNB and ECB instructions, the availability of these relief measures to a general population of customers was not itself an automatic trigger for classification into forborne category or to conclude that a significant increase in credit risk has occurred for all clients who utilized the measures.
The approved relief measures to performing exposures was assessed as CNB-compliant moratoria.

Monitoring activities
Following the introduction of COVID-19 measures to help the economy the Bank further intensified the monitoring activities of clients' portfolio, the so-called UTP (Unlikely to pay) analysis, with special priority to clients who use or have used some of the COVID-19 measures

Credit Quality Analysis
The Bank has assessed expected losses of its clients which are in moratoriums by assessing whether difficulties that the clients are facing represents only temporary economic shock, in which case payment holidays and concession approved to the clients were not considered to represents significant increase in credit risk.

In accordance with regulatory guidance, customers were able to obtain a moratorium of up to six months (for significantly impacted industries like tourism up to some twelve months). Such moratoria would not necessarily have been considered forbearance. In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related moratoria were not considered forborne. However, any support provided beyond completion of a moratorium is considered forbearance.

Those who are deemed either (a) to require a prolonged timescale to return to within the Bank's risk appetite, (b) not to have been viable pre-COVID-19, or (c) not to be able to sustain their debt once COVID-19 is over, will trigger a SICR and, if concessions are sought, are categorised as forborne, in line with regulatory guidance.

Macroeconomic adjustment

Bank has updated its macro-economic scenarios as at 31 December 2021. In addition to a base scenario, the Bank has also taken into consideration an adverse scenario and optimistic scenario. Weighting factors have been applied to each scenario.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis

The following table presents information on credit quality of financial assets measured at amortized cost, debt instruments at fair value through other comprehensive income and other assets. Unless otherwise indicated, for financial assets shown in the table, values are represented as gross book value. For credit lines and guarantees, the amounts in the table are obligatory or guaranteed amounts.

[HRK'000]	2021				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Amounts with the CNB					
Very low risk	162,020	-	-	-	162,020
ECL allowance	(337)	-	-	-	(337)
Carrying value	**161,683**	**-**	**-**	**-**	**161,683**
Giro accounts with other banks					
Very low risk	89,538	-	-	-	89,538
ECL allowance	(214)	-	-	-	(214)
Carrying value	**89,324**	**-**	**-**	**-**	**89,324**
Placements with other banks					
Very low risk	476	-	-	-	**476**
ECL allowance	-	-	-	-	**-**
Carrying value	**476**	**-**	**-**	**-**	**476**
Loans and advances to customers at amortised cost					
Very low risk	243,740	-	-	-	**243,740**
Low risk	21,695	-	-	-	**21,695**
Medium risk	-	51,817	-	-	**51,817**
High risk	-	-	33,070	-	**33,070**
Default	-	-	23,746	-	**23,746**
ECL allowance	(2,422)	(2,603)	(17,847)	-	**(22,872)**
Carrying value	**263,013**	**49,214**	**38,969**	**-**	**351,196**
Other assets at amortised cost					
Very low risk	171	1	-	-	**172**
Past due impaired	-	-	2,935	-	**2,935**
ECL allowance	(3)	-	(2,935)	-	**(2,938)**
Carrying value	**168**	**1**	**-**	**-**	**169**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2021			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
Very low risk	174,730	-	-	**174,730**
Low risk	-	-	-	**-**
Medium risk	-	-	-	**-**
ECL allowance – accrued interest	(1)	-	-	**(1)**
Carrying value	**174,729**	**-**	**-**	**174,729**
Corresponding ECL allowance, recognised in equity fair value reserve				
Credit lines				
Very low risk	14,681	-	-	**14,681**
Low risk	-	-	-	-
Medium risk	-	1	-	**1**
ECL allowance	(252)	-	-	(252)
Carrying value	**14,429**	**1**	**-**	**14,430**
Guarantees				
Very low risk	-	-	-	**-**
Low risk	630	-	-	**630**
Medium risk	-	-	-	**-**
High risk	-	-	867	**867**
Default	-	-	-	**-**
ECL allowance	(5)	-	(17)	**(22)**
Carrying value	**625**	**-**	**850**	**1,475**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2020				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Amounts with the CNB					
Very low risk	148,982	-	-	-	148,982
ECL allowance	(324)	-	-	-	(324)
Carrying value	**148,658**	**-**	**-**	**-**	**148,658**
Accounts with banks					
Very low risk	113,605	-	-	-	113,605
ECL allowance	(368)	-	-	-	(368)
Carrying value	**113,237**	**-**	**-**	**-**	**113,237**
Placements with other banks					
Very low risk	477	-	-	-	**477**
ECL allowance	-	-	-	-	**-**
Carrying value	**477**	**-**	**-**	**-**	**477**
Loans and advances to customers at amortised cost					
Very low risk	305,686	-	-	-	**305,686**
Low risk	49,162	-	-	-	**49,162**
Medium risk	209	38,584	-	-	**38,793**
High risk	-	-	11,766	-	**11,766**
Default	-	-	69,413	3,457	**72,870**
ECL allowance	(6,591)	(1,383)	(33,238)	(2,886)	**(44,098)**
Carrying value	**348,466**	**37,201**	**47,941**	**571**	**434,179**
Other assets at amortised cost					
Very low risk	2,097	-	-	-	2,097
Past due impaired	-	-	3,414	-	3,414
ECL allowance	-	-	(3,388)	-	(3,388)
Carrying value	**2,097**	**-**	**26**	**-**	**2,123**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2020			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
Very low risk	259,830	-	-	**259,830**
Low risk	-	-	-	**-**
Medium risk	-	-	-	**-**
ECL allowance – accrued interest	(4)	-	-	**(4)**
Carrying value	**259,826**	**-**	**-**	**259,826**
Corresponding ECL allowance, recognised in equity fair value reserve	(460)	-	-	**(460)**
Credit lines				
Very low risk	12,839	-	-	**12,839**
Low risk	1	-	-	**1**
Medium risk	-	1	-	**1**
ECL allowance	(213)	-	-	**(213)**
Carrying value	**12,627**	**1**	**-**	**12,628**
Guarantees				
Very low risk	750	-	-	**750**
Low risk	625	-	-	**625**
Medium risk	-	110	-	**110**
High risk	-	-	546	**546**
Default	-	-	3,200	**3,200**
ECL allowance	(11)	(1)	(75)	**(87)**
Carrying value	**1,364**	**109**	**3,671**	**5,144**

The credit risk of financial assets and credit lines and guarantees is presented through the internal credit risk classification.

Internally, the Bank classifies exposures to the following risk categories:

Very low risk - the client is timely in servicing its liabilities in last 12 months and the client has not been on watch list for the last 12 months,

Low risk – the client is timely in servicing its liabilities at the reporting date, but in the last 12 month the client has been classified in A2 or the client has been on Monitoring list,

Medium risk – the client has days of delays over 30 days but it is still classified as performing at the reporting date or the client is timely in servicing its liabilities at the reporting date but in the last 12 months the client had days of delays over 90 or it was restructured,

High risk – NPL exposures which has not exceeded 60 days of delays in the last 12 months,

Default – NPL exposures.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

The following table sets out information about the overdue status of loans and advances to customers at amortised cost in Stages 1, 2 and 3:

	2021				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost – gross carrying amount					
Current	265,433	51,817	40,890	-	**358,140**
Overdue < 30 days	2	-	136	-	**138**
Overdue >30<90 days	-	-	-	-	**-**
Overdue > 90	-	-	15,790	-	**15,790**
	265,435	**51,817**	**56,816**	**-**	**374,068**

	2020				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost – gross carrying amount					
Current	354,710	37,485	42,764	-	**434,959**
Overdue < 30 days	347	846	12	-	**1,205**
Overdue >30<90 days	-	253	22	-	**275**
Overdue > 90 days	-	-	38,381	3,457	**41,838**
	355,057	**38,584**	**81,179**	**3,457**	**478,277**

During 2021, the Bank recorded a decrease in stage 3 portfolio gross carrying amounts due to sale of NPL portfolio and regular repayments.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Input data, assumptions and techniques used to estimate impairment

When determining whether the risk of default on a financial instrument has increased significantly from the initial recognition, the Bank takes into account both quantitative and qualitative information and expert credit assessments. The criteria for determining a significant increase in credit risk are set for the purpose of a proper allocation of exposure from Stage 1 to Stage 2. Throughout the contractual relationship, the Bank assesses credit exposure quality and classifies those exposures into appropriate risk groups on the basis of the general classification criteria:

- creditworthiness of the debtor,
- the timeliness in settling liabilities towards the credit institution and other creditors represents the debtor's ability to fully settle its liabilities towards the Bank including principal, interest, commissions and other liabilities within the agreed terms,
- the quality of the collateral instruments determined on the basis of marketability, documentation and the possibility of exercising control by the bank, the possibility of enforcement and value in relation to exposure / off-balance sheet liabilities.

Credit risk is considered to have increased considerably from the initial recognition if any of the following occurs:

- at the reporting date the debtor is past due for more than 30 days (based on materiality threshold), but is still within a period not exceeding 90 days and
- at the reporting date the borrower is timely in settling its liabilities. Days past due have not exceeded 30 days but exposure has been past due for more than 30 days in the last 3 months, not exceeding 90 days,
- Existence of "forbearance" measures.

Except for days past due, the Bank uses qualitative indicators to determine the increased credit risk pursuant to the internal credit risk monitoring system for the purpose of transitioning between "stages".

Macroeconomic adjustment

Measurement of financial assets reflects the best estimate of the effects of future conditions, and in particular the economic conditions affecting forward-looking probabilities of the non-performance of liabilities and losses due to the non-fulfillment of obligations. In order for future information to be adequately included in macroeconomic scenarios, the Bank prescribed the manner and the conditions of adjustments of the calculated PD and LGD to macroeconomic expectations. The macroeconomic scenario is determined on the basis of adjusted publicly available information.

The Bank monitors Macroeconomic Developments primarily through the CNB's releases and the publication Macroeconomic Forecasts and Trends. Major macroeconomic indicators which are monitored are GDP, consumer price index and employment.

For the purpose of adjusting the calculated PD to macroeconomic expectations, only GDP trends are considered, as the most significant macroeconomic variable. For the calculation of ECL, three macroeconomic scenarios are considered: baseline, positive and negative. Weights of each scenario are the following:

Scenario	2020		2021	
	Weight 2020	Real GDP	Weight	Real GDP
Baseline	60%	(9,7)	60%	6,8
Positive	5%	(8,0)	15%	4,5
Negative	35%	(11,4)	25%	7,5

Within the scenarios, credit risk parameters are stressed based on the changes in macroeconomic variables.

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Input data, assumptions and techniques used to estimate impairment (continued)

Macroeconomic adjustment (continued)

For the purpose of macroeconomic adjustment of the LGD, GDP is also considered as the main macroeconomic factor, but also the main indicators and risk drivers in the relevant economic sectors may be included. The LGD is adjusted for the estimated impact of macroeconomic developments represented by GDP on the probability of collection or business results of customers, using the same scenarios with the same probabilities as in the calculation of macroeconomic adjustment of PD.

Forward looking component does not have significant impact on ECL amount. The sensitivity analysis for +/-1% GDP change results in change of -/+0.01% in ECL.

Modification of financial assets

In some situations, change in conditions or modifications in the contracted cash flow may result in termination of the recognition of an existing financial asset.

When a modification of a financial asset results in cessation of recognition of an existing financial asset and subsequent recognition of a modified financial assets, the modified financial asset is viewed as a "new" financial asset.

Modification or change in contractual cash flows of financial assets occurs when re-contracting or as another change in contractual cash flows between the first recognition and maturity of the financial asset. Changes to the contractually agreed terms must be legally binding and enforceable.

When re-contracting or any other changes in contractual cash flows occur, during the period between initial recognition and maturity of the financial asset, the Risk Management Division / Credit Risk Management Department is obligated to determine whether there are any modifications and whether the modifications are so significant that the existing financial asset is derecognised and a new financial asset is recognised.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL)

Key figures for measuring expected credit loss are the following variables: probability of default (PD); loss given default (LGD)

Expected Credit Losses (ECL) in Stage 1 are calculated by multiplying the 12-month PD with LGD and the value of the exposure to credit risk at the reporting date. The ECL for the entire lifetime is calculated by multiplying the PD for its entire lifetime with LGD and the carrying amount of exposure to credit risk at the reporting date. Lifetime ECL is calculated by multiplying the lifetime PD with LGD and the gross book value of exposure at the reporting date.
The following definitions apply to PD and LGD:

- PD (likelihood of a non-fulfilment of obligations): the probability of a transition from performing status to non-performing status over an one-year period,
- LGD (loss due to the non-fulfilment of obligations): percentage of loss in case of non-performing of obligations.

The table below shows the movement of expected credit losses for Loans and advances to customers valued at amortized cost:

[HRK'000]	2021				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost					
As at 1 January 2021	**6,591**	**1,383**	**33,238**	**2,886**	**44,098**
Transfer to expected credit losses in 12 months	11	(11)	-	-	**-**
Transfer to expected credit losses during lifetime	(60)	67	(7)	-	**-**
Transfer to non-performing status	(8)	(91)	99	-	**-**
Net remeasurement of loss allowance	(4,113)	1,254	2,576	-	**(283)**
Collected impaired interest	-	-	(3,209)	-	**(3,209)**
Write-offs and other movements	-	-	(14,848)	(2,886)	**(17,734)**
As at 31 December 2021	**2,421**	**2,602**	**17,849**	**-**	**22,872**

Expected credit losses for Loans and advances to customers were decreased by HRK 21,226 thousands in 2021. Change in ECL for Stage 1 exposures was mainly driven by decrease of the total Loan portfolio by HRK 104,209 thousand, of which HRK 89,622 thousand relates to Stage 1. In 2021 the Bank sold part of its performing retail portfolio in Stage 1, which also affected decrease in expected credit losses given that there was no new placements in retail segment. During 2021, the Bank had several significant sales of non-performing exposures (individual and group). POCI exposures were derecognized as a result of an individual NPL sale and write off alongside with other fully unrecoverable NPL portfolio.

During 2021 the Bank sold a part of its non-performing loans, with the gross value of HRK 23.12 million HRK and respective net value of HRK 5.66 million. The Bank realised a gain on this sale.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL) (continued)

[HRK'000]	2020				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost					
As at 1 January 2020	**5,118**	**2,359**	**31,562**	**2,919**	**41,958**
Transfer to expected credit losses in 12 months	73	(55)	(18)	-	**-**
Transfer to expected credit losses during lifetime	(89)	94	(5)	-	**-**
Transfer to non-performing status	(11)	(33)	44	-	**-**
Net remeasurement of loss allowance	1,500	(982)	7,241	(33)	**7,726**
Collected impaired interest	-	-	(3,260)	-	**(3,260)**
Write-offs and other movements	-	-	(2,326)	-	**(2,326)**
As at 31 December 2020	**6,591**	**1,383**	**33,238**	**2,886**	**44,098**

The table below shows the movement of expected credit losses of financial assets at fair value through other comprehensive income recognized in equity:

[HRK'000]	2021			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
As at 1 January 2021	**460**	**-**	**-**	**460**
Net remeasurement of loss allowance	15	-	-	15
Derecognised financial assets	(206)	-	-	(206)
Write off	-	-	-	-
As at 31 December 2021	**269**	**-**	**-**	**269**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL) (continued)

[HRK'000]	2020			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
As at 1 January 2020	**790**	**-**	**-**	**790**
Net remeasurement of loss allowance	(208)	-	-	(208)
Derecognised financial assets	(122)	-	-	(122)
Write off	-	-	-	-
As at 31 December 2020	**460**	-	-	**460**

Financial assets at fair value through other comprehensive income by external risk classification

The table below provides information on the credit quality of a financial asset at fair value through other comprehensive income, using the external ratings - Fitch Ratings.

[HRK'000]	2020	2021
Government bonds and treasury bills	**259,818**	**174.721**
AAA	-	-
AA-	20,584	19.925
A+	25,840	25.089
BBB+ and lower	213,394	129.707
Corporate bonds	**8**	**8**
No rating	8	8
Total	**259,826**	**174.729**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk

Market risk is defined as the risk that the fair value or future cashflows of a financial instrument will fluctuate as a result of changes in market prices. It includes: interest rate risk, foreign exchange risk and positional risk.

The Risk Management Sector calculates: market risk exposure, market risk limits and capital requirements for exposure to market risks.

The Risk Management Sector reports daily to the Treasury Department on the usage of market risk exposure limits and reports to the Asset and Liability Management Committee monthly.

4.1.2.1 Foreign exchange risk

Foreign exchange operations of the Bank are subject to risks due to changes in inter-currency relationships, as well as changes in foreign currency rates in relation to the domestic currency. The Bank monitors changes in the foreign currency sub-ledger on a daily basis by monitoring the relationship between the financial assets and liabilities in foreign currency, in accordance with CNB regulations on the open foreign exchange position.

The Bank uses the open foreign exchange position (gap analysis) to measure and report exposure to currency risk in accordance with the methodology prescribed by the Croatian National Bank. The operational management of the foreign currency position within the prescribed limits is the responsibility of the Treasury Department, which has the ability to propose measures to eliminate the currency gap through a reduction or increase in placements and deposits with a currency clause, selling or buying currency or through arbitration - selling one currency for another.

The Risk Management Sector controls the compliance with limits on a daily basis, and monthly reports to the Asset and Liability Management Committee on foreign exchange risk exposure.

The exposure in currencies other than EUR and HRK is below 5% of assets per single currency. Banks assets in other currencies include cash and deposits with other banks. Regarding other currencies, most of them refer to deposits in US dollar and swiss francs.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.1 Foreign exchange risk (continued)

Foreign exchange risk analysis

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

[HRK'000]	31.12.2021 HRK	EURO linked	Euro	Other foreign currencies	Total
ASSETS					
Amounts with the Croatian National Bank	161,683	-	-	-	161,683
Placements with other banks	-	-	476	-	476
Cash and accounts with banks	5,053	-	69,273	14,998	89,324
Financial assets at fair value through OCI	107,685	10,445	56,599	-	174,729
Loans and advances to customers	10,665	75,439	265,092	-	351,196
Property and equipment	14,906	-	-	-	14,906
Intangible assets	6,767	-	-	-	6,767
Other assets	13,805	-	47	-	13,852
TOTAL ASSETS	**320,564**	**85,884**	**391,487**	**14,998**	**812,933**
LIABILITIES					
Deposits from customers	162,590	-	405,191	14,707	582,488
Deposits and borrowings from banks	1,640	5,737	45,108	-	52,485
Subordinated debt	20,000	-	22,552	-	42,552
Provisions for liabilities and charges	3,032	7	-	-	3,039
Other liabilities	16,470	125	304	-	16,899
Deferred tax liability	75	-	-	-	75
TOTAL LIABILITIES	**203,807**	**5,869**	**473,155**	**14,707**	**697,538**
CURRENCY GAP	**116,757**	**80,015**	**(81,668)**	**291**	**115,395**

[000 HRK]	31.12.2020 HRK	EURO linked	Euro	Other foreign currencies	Total
ASSETS					
Amounts with the Croatian National Bank	148,658	-	-	-	148,658
Cash and accounts with banks	5,590	-	100,899	15,526	122,015
Placements with other banks	-	-	477	-	477
Financial assets available for sale	143,401	43,567	104,171	-	291,139
Loans and advances to customers	71,330	112,169	250,680	-	434,179
Property and equipment	8,137	-	-	-	8,137
Intangible assets	8,480	-	-	-	8,480
Other assets	32,663		833	-	33,496
TOTAL ASSETS	**418,259**	**155,736**	**457,060**	**15,526**	**1,046,581**
LIABILITIES					
Deposits from customers	278,548	-	549,725	15,346	843,619
Deposits and borrowings from banks	920	6,280	854	-	8,054
Subordinated debt	20,000	-	27,104	-	47,104
Provisions for liabilities and charges	1,048	12	-	-	1,060
Other liabilities	4,518	519	27,154	-	32,191
Deferred tax liability	446	-	-	-	446
TOTAL LIABILITIES	**305,480**	**6,811**	**604,837**	**15,346**	**932,474**
CURRENCY GAP	**112,779**	**148,925**	**(147,777)**	**180**	**114,107**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.1 Foreign exchange risk (continued)

Foreign exchange risk analysis (continued)

The sensitivity analysis includes all foreign currency denominated items and adjustments of foreign currency openness at the year-end. The amount of adjustment is based at 10% change in foreign currency rates against the local currency HRK. A positive number indicates an increase profit in case of the HRK 10% depreciation against the relevant currency. In case of HRK 10% appreciation against the relevant currency, there would be an equal impact but with an opposite sign.

in thousands HRK		**31 December 2021**
	EUR	**OTHER**
Open FX position	578	278
Impact +10%	58	28
Impact -10%	(58)	(28)

in thousands HRK		**31 December 2020**
	EUR	**OTHER**
Open FX position	3.762	240
Impact +10%	376	24
Impact -10%	(376)	(24)

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.2 Price risk

Price risk is the risk of loss arising from changes in the price of a financial instrument. Primary exposure to positional risk comes from shares in investment funds and debt securities at fair value through other comprehensive income. Shares in investment funds mainly relate to cash funds where no significant fluctuations in value. The Bank manages the risks arising from the change in their fair value by continuously following changes in share price and investment returns and reports to the ALCO. At least once a year Market and Operational Risk department and Risk Control department conducts stress testing on fixed income securities portfolio. Stress testing includes at least the sensitivity analysis and relates to the impact of significant changes in interest rates on portfolio value and profit / loss.

The following tables show sensitivity of Bank portfolio of securities with fixed interest rate (FVOCI) on increase of interest rates and the impact on the overall portfolio in case of a shift in market interest rates by 100 bp.

in thousands HRK		**31 December 2021**
Currency	**Changes in interest rates**	**Sensitivity on portfolio of securities with fixed interest rate (FVOCI)**
EUR	100 bp	(4,611)
HRK	100 bp	(4,699)

in thousands HRK		**31 December 2020**
Currency	**Changes in interest rates**	**Sensitivity of portfolio of securities with fixed interest rate (FVOCI)**
EUR	100 bp	(5,886)
HRK	100 bp	(8,990)

4.1.2.3 Interest rate risk

The Bank's operations are subject to the risk of loss which arises from potential interest rate fluctuations which affect positions in the Bank's records.

In line with prudential interest rate risk management, the Bank defines responsibilities in accordance with generally accepted standards and defined limits for maintaining an acceptable level of economic capital and achieving satisfactory financial results.

For placements with corporate clients, the majority of placements and deposits are initially contracted at variable interest rate in accordance with the Bank's policies, except when, for competitive reasons, fixed interest rates are contracted.

The model for measuring and monitoring interest rate risk exposure measurements includes two basic measures:

1) A measure of the economic value of equity (EVE), that is, the change in the net present value of interest rate sensitive instruments over their remaining term as a result of changes in interest rates. The change in EVE is the change in the net present value of all cash flows arising from assets, liabilities and off-balance sheet items in the Bank's ledger resulting from the change in interest rates, assuming that all positions in the Bank's book expire. The Bank determines the change in economic value using regulatory shock of 200bp and six interest rate shock scenarios.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.3 Interest rate risk (continued)

2) A measure of profit or a measure of change in expected future profitability over a period of time as a result of changes in interest rates. The change in net interest income using the standard parallel shift is calculated by approximating changes in net interest income such that each net position is multiplied by a corresponding change in the interest rate.

Measure of the economic value of capital

The Bank uses eight interest rate shock scenarios to measure the economic value of equity (EVE):

1. regulatory shock + 200 bp
2. regulatory shock - 200 bp
3. parallel shock up
4. parallel shock down
5. steepener shock, short-term rates down and long-term rates up
6. flattener shock, short-term rates up and long-term rates down
7. shock of rising short-term interest rate
8. shock of falling short-term interest rates.

With the entry into force of the Decision on Supervisory Reports of Credit Institutions in March 2021, the Bank fully adjusted the calculation of interest rate risk exposure in the book of positions that are not traded according to provisions of the Decision. With reporting date 31.03.2021. The Bank has started reporting on interest rate risk exposure in accordance with the provisions of the Decision on Supervisory Reports of Credit Institutions.

Profit measure

A change in net interest income is a short-term measurement of the effect of a change in interest rates on net interest income and net interest margin over a 12-month period. The analysis assumes a parallel shift of the yield curves. The Bank uses a regulatory shock of +/- 200 bb for all currencies to calculate the impact on net interest income. The Bank defines the limits on the results of the standard simulation of net interest income in relation to the planned net interest income for the current year and the planned net interest margin.

The results of the Internal interest rate risk exposure in the banking book are presented to the ALCO Committee quarterly. In the event that internal limits are exceeded, the Market and Operational Risks and Risk Control Sector reports to ALCO on the internal limits being exceeded and proposes measures to reduce the Bank's exposure to interest rate risk.

Interest rate risk stress test

The Market and Operational Risk and Risk Control Sector performs stress test at least once a year. Given that changes in interest rate can have adverse effects on earnings and their economic value, the Bank performs stress tests taking into account the earnings perspective, i.e. the effect of stress events on the net interest income, and the economic value perspective, i.e. the effect of stress events on the Bank's economic value. The results of stress tests are presented at the meeting of the Banks' Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.3 Interest rate risk (continued)

Interest rate risk stress test (continued)

The following table shows sensitivity of Bank equity (economic value) to reasonable interest rate movements (parallel shift), on condition that all other variables are constant. The sensitivity presented below is prepared based on methodology used to prepare sensitivity report "EVK" as reported to regulator (Croatian National Bank). From 31 March 2021 CNB changed methodology for reporting on exposure on sensitivity of equity value to interest rate movements. Therefore reporting for 31 December 2021 is different in comparison to 31 December 2020.

in HRK '000		**31 December 2021**
	Sensitivity of equity value to interest rate movements	**% of regulatory capital**
Regulatory +200 bp	(4,441)	(3.5%)
Regulatory -200 bp	889	0.7%

Due to changes in interest rate risk sensitivity calculation methodology is not practicable to disclose comparative information.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Interest rate gap analysis

The following tables present the Bank's financial assets and financial liabilities analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing, expect for demand deposits which are presented in category *from 3 months to 1 year.*

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non-interest bearing	Total	31 December 2021 Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	-	36,731	-	-	-	124,952	**161,683**	-
Cash and accounts with banks	66,637	-	-	-	-	22,687	**89,324**	-
Placements with other banks	476	-	-	-	-	-	**476**	476
Securities	540	5,160	217	79,416	80,344	9,052	**174,729**	165,677
Loans and advances to customers	66,637	108,390	220,317	1,543	427	(46,118)	**351,196**	2,529
Other assets	-	-	-	-	-	-	**-**	-
TOTAL FINANCIAL ASSETS	**134,290**	**150,281**	**220,534**	**80,959**	**80,771**	**110,573**	**777,408**	**168,682**
FINANCIAL LIABILITIES								
Deposits from customers	209,747	45,473	252,259	22,381	41,058	11,570	**582,488**	298,305
Deposits and borrowings from banks	84	45,413	5,926	-	-	1,062	**52,485**	45,106
Subordinated debt	-	-	-	42,552	-	-	**42,552**	42,552
Provisions for liabilities and expenses	-	-	-	-	-	3,039	**3,039**	-
Other liabilities	-	-	-	-	-	16,899	**16,899**	-
Deferred tax liability	-	-	-	-	-	75	**75**	-
TOTAL FINANCIAL LIABILITIES	**209,831**	**90,886**	**258,185**	**64,933**	**41,058**	**32,645**	**697,538**	**385,963**
INTEREST GAP	**(75,541)**	**59,395**	**(37,651)**	**16,026**	**39,713**	**77,928**	**79,870**	**(217,281)**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Interest rate gap analysis (continued)

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non-interest bearing	Total	31 December 2020 Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	-	-	43,551	-	-	105,107	**148,658**	-
Placements with other banks	477	-	-	-	-	-	**477**	477
Cash and accounts with banks	113,605	-	-	-	-	8,410	**122,015**	-
Securities	-	-	73,830	78,871	90,992	47.446	**291,139**	275,006
Loans and advances to customers	70,617	108,387	238,936	10,339	5,900	-	**434,179**	50,627
Other assets	-	-	-	-	-	33,496	**33,496**	-
TOTAL FINANCIAL ASSETS	**184,699**	**108,387**	**356,317**	**89,210**	**96,892**	**194,459**	**1,029,964**	**326,110**
FINANCIAL LIABILITIES								
Deposits from customers	65,237	78,665	633,447	42,074	19,078	5,118	**843,619**	435,076
Deposits and borrowings from banks	637	309	1,082	3,738	2,286	2	**8,054**	6,652
Subordinated debt	-	2,899	24,118	20,000	-	87	**47,104**	24,406
Provisions for liabilities and expenses	-	-	-	-	-	1,060	**1,060**	-
Other liabilities	-	-	-	-	-	32,191	**32,191**	-
Deferred tax liability	-	-	-	-	-	446	**446**	-
TOTAL FINANCIAL LIABILITIES	**65,874**	**81,873**	**658,647**	**65,812**	**21,364**	**38,904**	**932,474**	**466,134**
INTEREST GAP	**118,825**	**26,514**	**(302,330)**	**23,398**	**75,528**	**155,555**	**97,490**	**(140,024)**

*includes impairment of performing loans, past due principal of performing loans, accrued interest and impairment of interest

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk

Liquidity risk arises through the general funding of the Bank's activities and in the management of its positions. The main categories of liquidity risk to which the Bank is exposed are:

- inability to settle liabilities as a result of the maturity gap between cash inflow and outflow - structural liquidity risk, and
- risk of being unable to sell or acquire liquid instruments on the market in an appropriate time frame and at a reasonable price - financial instruments liquidity risk.

Liquidity risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- Liquidity Risk Management Policy and Strategy,
- Procedure for stress testing
- Procedure for the Bank's Liquidity Management,
- Plan for Liquidity crisis.

Internal acts are proposed by the Market and Operational Risks and Risk Control Sector and approved by the Bank's Management Board. In accordance with changes, the Market and Operational Risks and Risk Control Sector proposes revisions of internal acts.

The key purpose of the liquidity policy is to ensure that the Bank operates in a way to achieve an optimal balance between the Bank's safety and shareholders return on investment. The framework for appropriate liquidity risk management comprises the following: liquidity management strategy approved by the Management Board within budget and strategic plans; efficient supervision by the Asset and Liability Management Committee and the Management Board; clearly defined responsibilities and operations in line with agreed limits; management of assets and liabilities by matching their maturities; an established evaluation system of all current and future inflows and outflows; liabilities structure management, specifically in monitoring the concentration of large deposits; sustained development of liquidity stress tests; assessment of access to financial markets and available funds under usual and stressed conditions; and a crisis plan.

As part of its business activities the Bank monitors liquidity risk and complies with relevant regulations, the following measures are part of liquidity risk management:

- monitoring that minimum 17% of foreign currency liabilities is held as short-term foreign currency assets,
- monitoring liquidity reserve requirements in HRK,
- monitoring liquidity reserve requirements in foreign currency,
- liquidity coverage ratio (proportion of highly liquid assets held by the Bank)
- net stable funding ratio.

The purpose of managing liquidity funds is the compliance with the regulatory minimum by maintaining the minimum cost of liquidity funds.

The Bank uses the following models for liquidity risk measurement:

- financial and structural indicators,
- deposit concentration,
- cash flow notice and projection system, and
- liquidity stress tests.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

The Bank raises funds using a broad range of instruments including deposits, borrowings, subordinated debt and share capital. The Bank continuously assesses its liquidity risk by identifying and monitoring changes in the level of funding required to achieve business goals and strategic targets. Diverse funds enable flexibility, decrease dependence on a single source of funding and enable straightforward management of financing costs.

Liquidity stress test

Liquidity stress tests are performed based on the analysis of different scenarios, i.e. the assessment of effects of simultaneous changes in several different factors of risk on the financial position of the Bank in clearly defined stress circumstances. In order to prepare for a possible impact on liquidity, the Bank performs liquidity stress tests adapted to business size and characteristics, strategic goals and plans, the internal Bank's organization and its environment, to ensure sufficient liquidity funding. The aim of the liquidity stress test is to recognise a situation and to prepare the Bank's relevant functions for a prompt reaction in the case of a liquidity crisis. The development of the liquidity stress test represents the Bank's internal policy and good practice for liquidity management. The stress test relates to the change in value of certain parameters that have an impact on the financial and liquidity position of the Bank and determining the effects of said impact of these parameters on the entire business.

The stress scenario is arbitrarily selected and approved by the Market and Operational Risks and Risk Control Sector. Two scenarios are selected, at a minimum, one including the Bank's specific factors and the other including market factors. Different combinations of the factors are possible as well.

The selection of scenarios is usually affected by:

- current market movements;
- other movements historically significant for the Bank's liquidity;
- future predictions based on available information significant for the Bank's liquidity.

Upon selection of the stress scenario, the Treasury Department analyses the scenario or performs the sensitivity analysis, depending on whether one or more factors on the financial position of the Bank are analysed. The Market and Operational Risks and Risk Control Sector and the Treasury Sector report the results of the stress tests to the Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

Maturity analysis

The tables below present the assets and liabilities of the Bank based on the remaining contractual maturity as of 31st December 2021 and 31st December 2020. Despite the maturity mismatch of assets and liabilities, the expected cash flows on a particular financial asset and liability differ significantly from the contractual cash flows. Obligatory reserve is presented in the category up to one month and not according to the maturity of the related liabilities. The Bank expects that demand deposits will not significantly oscillate and will not be withdrawn immediately. Assets and liabilities presented below are based on the Bank's carrying values.

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	31 December 2021 Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	161,683	-	-	-	-	**161,683**
Placements with other banks	476	-	-	-	-	**476**
Cash and accounts with banks	89,324	-	-	-	-	**89,324**
Securities	540	5,177	217	61,471	107,325	**174,730**
Loans and advances to customers	18,637	6,012	102,750	117,008	106,790	**351,197**
Other assets	6,309	191	204	-	7,148	**13,852**
TOTAL FINANCIAL ASSETS	**276,969**	**11,380**	**103,171**	**178,479**	**221,263**	**791,262**
FINANCIAL LIABILITIES						
Deposits from customers	248,765	46,509	242,730	23,279	21,205	**582,488**
Deposits and borrowings from banks	1,445	45,390	1,079	2,351	2,220	**52,485**
Subordinated debt	-	-	-	42,552	0	**42,552**
Other liabilities	3,135	1,083	1,742	2,881	8,058	**16,899**
Provisions for liabilities and expenses	21	2,432	10	426	150	**3,039**
Deferred tax liability	75	-	-	-	-	**75**
TOTAL FINANCIAL LIABILITIES	**253,441**	**95,414**	**245,561**	**71,489**	**31,633**	**697,538**
MATURITY GAP	**23,528**	**(84,034)**	**(142,390)**	**106,990**	**189,630**	**93,724**
OFF- BALANCE SHEET						
Guarantees	1,475	-	-	-	-	1,475
Overdrafts	14,430	-	-	-	-	14,430
TOTAL OFF-BALANCE SHEET	**15,905**	**-**	**-**	**-**	**-**	**15,905**

Although there is significant presentational liquidity gap for the period up to one year, the Bank does not expects that demand deposits to be withdrawn immediately. Furthermore, the Bank can adjust the liquidity position by selling financial assets with maturity above 1 year.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	31. December 2020 Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	148,658	-	-	-	-	**148,658**
Placements with other banks	477	-	-	-	-	**477**
Cash and accounts with banks	122,015	-	-	-	-	**122,015**
Securities	32,215	161	31,361	62,524	164,878	**291,139**
Loans and advances to customers	6,413	14,149	72,497	180,246	160,874	**434,179**
Other assets	5,224	2,310	185	733	25,044	**33,496**
TOTAL FINANCIAL ASSETS	**315,002**	**16,620**	**104,043**	**243,503**	**350,796**	**1,029,964**
FINANCIAL LIABILITIES						
Deposits from customers	330,390	79,058	306,297	106,566	21,308	**843,619**
Deposits and borrowings from banks	639	309	1,082	3,738	2,286	**8,054**
Subordinated debt	-	2,911	1,583	19,999	22,611	**47,104**
Other liabilities	2,739	1,325	27,479	560	88	**32,191**
Provisions for liabilities and expenses	150	-	444	311	155	**1,060**
Deferred tax liability	-	-	-	446	-	**446**
TOTAL FINANCIAL LIABILITIES	**333,918**	**83,603**	**336,885**	**131,620**	**46,448**	**932,474**
MATURITY GAP	**(18,916)**	**(66,983)**	**(232,842)**	**111,883**	**304,348**	**97,490**
OFF- BALANCE SHEET						
Guarantees	3,032	-	1,848	350	-	5,230
Overdrafts	8,398	-	128	528	3,787	12,841
TOTAL OFF-BALANCE SHEET	**11,430**	**-**	**1,976**	**878**	**3,787**	**18,071**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

Analysis of undiscounted cash flows of financial liabilities by remaining contracted amounts.

31 December 2021	Less than 1 month	1 – 3 months	3 – 12 months	1 – 3 years	Over 3 years	Undiscounted	Carrying value
Deposits to customers	248,769	46,513	242,830	23,339	21,292	582,743	582,488
Deposits and borrowings from banks	1,445	45,435	1,079	2,493	2,436	52,888	52,485
Subordinated debt	-	-	-	45,663	-	45,663	42,552
Provisions for liabilities and charges	21	2,432	10	426	150	3,039	3,039
Other liabilities	3,135	1,083	1,742	2,881	8,058	16,899	16,899
Deferred tax liabilities	-	-	-	75	-	75	75
Total undiscounted financial liabilities	**253,366**	**95,414**	**245,561**	**71,564**	**31,633**	**701,307**	**697,538**
Off Balance-sheet	**337**	**1,747**	**13,370**	**451**	**-**	**15,905**	**15,905**

31 December 2020	Less than 1 month	1 – 3 months	3 – 12 months	1 – 3 years	Over 3 years	Undiscounted	Carrying value
Deposits to customers	330,396	79,069	306,594	107,291	21,658	845,002	843,619
Deposits and borrowings from banks	639	310	1,082	3,738	2,507	8,276	8,054
Subordinated debt	-	2,934	634	21,516	26,839	51,923	47,104
Provisions for liabilities and charges	150	-	444	311	155	1,060	1,060
Other liabilities	2,739	1,325	27,479	560	88	32,191	32,191
Deferred tax liabilities	-	-	-	446	-	446	446
Total undiscounted financial liabilities	**333,918**	**83,638**	**336,233**	**133,862**	**51,247**	**938,898**	**932,474**
Off Balance-sheet	**11,430**	**-**	**1,976**	**878**	**3,787**	**18,071**	**18,071**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.4 Operational risk

Operational risk is defined as the risk of loss due to inadequate or incorrect processes, human or internal system errors or events caused by external factors (natural disasters, fire, flood, attack, changes of legislation, embezzlement).

Operational risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- Policy on operational risk management
- Procedure on operational risk management
- The methodology for operational risk management information system
- Directive on reporting of operational losses and operational risks

When measuring operational risk exposure, based on the consequences of a risk event, the Bank distinguishes the following:
Loss from operational risk, which represents operational losses affecting the balance sheet and assuming the known amount of losses in the Bank's records.
Significant operational risk, which is present in business processes and has not resulted in operational losses, but there is a possibility of future operational losses resulting from it.

Operational risk assessment is performed through Self Risk Assessment for every business process of the Bank. Self Risk Assessment is performed on a yearly basis for every business process of the Bank using event-based questionnaires prepared in accordance with Basel guidelines. Based on collected data, each reported event which could result in operational risk is quantified and classified into a risk category. For events for which risks are high and very high, the business processes owners, in coordination with the Market and Operational Risks and Risk Control Sector, propose actions for reducing exposure to operational risk by using methods for reduction of effects, i.e. damages and the probability of occurrence or by transferring the risk to a counterparty. The Market and Operational Risks and Risk Control Sector reports the results of the Self Risk Assessment to the Management Board once a year.

The Market and Operational Risks and Risk Control Sector reports to the Management Board quarterly on recorded operational losses, i.e. events which resulted in losses recorded in the Bank's records due to exposure to operational risk. The report on operational losses contains, at a minimum, data on amounts of losses, recovered amounts, unrecovered amounts, operational losses per type of event and cause, and share of different organisational units of the Bank in operational losses.

4.1.5 Capital adequacy

The basic parameters of the capital management policy are given by the Credit Institutions Act and the EU Directive (2013/36/EU, 2019/878/EU).

The basic objectives of capital management mean ensuring the following:

- the going concern assumption and
- meeting the regulatory and capital adequacy requirements

The total capital ratio as at 31 December 2021 was set at a minimum of 8%, while keeping a protective layer for the preservation of ordinary capital in the amount of 2.5% and a protective layer for structural system risk of 1.5%.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.5 Capital adequacy (continued)

Total capital is determined as a category of capital that is managed by the Bank and must be at least at a level that ensures the adequacy of capital sufficient to cover the capital requirements and to ensure minimum prescribed capital adequacy ratio. Total capital is calculated in accordance with the prescribed subordinate acts of CNB and Regulation (EU) no. 575/2013.

For the purpose of calculating capital adequacy, in 2018 the Bank has decided to adopt a "static approach" that allows the Bank to gradually incorporate the effects of the first-time adoption of the Decision on classification, which partially incorporates the effects of IFRS 9, on the calculation of regulatory capital by 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022.

(HRK 000) CAPITAL ADEQUACY	31 December 2020	31 December 2021
TIER 1 CAPITAL	**110,704**	**109,303**
TIER 1 CAPITAL – COMMON EQUITY	**110,704**	**109,303**
Capital instruments eligible as CET1 Capital	326,318	326,318
Accumulated loss	(218,492)	(218,492)
Accumulated other comprehensive losses	2,475	606
Other reserves	3,792	3,792
(-) Goodwill	-	-
(-) Other intangible assets	(8,480)	(6,767)
Other transitional adjustments to CET 1 Capital	5,091	3,846
TIER 1 CAPITAL - ADDITIONAL	**-**	**-**
TIER 2 CAPITAL	26,004	17,198
TOTAL REGULATORY CAPITAL	**136,708**	**126,501**
Risk weighted assets		
Credit risk weighted assets	620,794	420,274
Exposure for operational risk	71,086	62,365
Exposure for FX risk	4,002	-
TOTAL RISK WEIGHTED ASSETS	**695,882**	**482,639**
COMMON EQUITY TIER 1 CAPITAL RATIO	**15.91%**	**22.61%**
TIER 1 CAPITAL RATIO	**15.91%**	**22.61%**
TOTAL CAPITAL RATIO	**19.65%**	**26.17%**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk

Concentration risk is every individual, direct or indirect exposure toward one counterparty or group of related parties or group of exposures connected by common risk factors such as industry, geographical area, operations or goods, i.e. application of techniques for credit risk reduction, which can cause such losses which could jeopardize the Bank's going concern.
The Bank analyses and reports on concentration risk present both on the asset side of the balance sheet, i.e. loan portfolio, as well as on the equity and liabilities side of the balance sheet, i.e. source of funds.

The Bank analyses concentration risk on the basis of each individual, direct or indirect exposure toward one counterparty or group of related parties and has regulated the identification of related parties by internal acts, determining the following:

1) control, i.e. relationship between the parent company and its subsidiary or similar relationship between any legal or natural person and the company, and
2) economical and financial ties.

This relationship is established mainly on the basis of information/data received from the client, but also by checking other available sources. Groups of related parties are formed and reported by the Credit Risk Management Department within the Risk Management Sector. Groups of related parties are entered into the Registry of Related Parties as the comprehensive database for related parties.

The Bank actively manages the diversification of the loan portfolio and limits the concentration limits, thus adjusting the structure and quality of the loan portfolio or reducing the credit risk.

For the purpose of defining the Bank's exposure to risk, limits for certain types of exposure are determined, depending on the geographical location of the debtor, the activity, the type of placements and the method of repayment of the placements.

In order to maintain a diversified and stable base of financing and to avoid becoming overly dependent on only certain sources, concentration is monitored for the following:

- deposits from companies and other financial institutions: 10 biggest deponents with term deposits in relation to total deposits from legal persons and financial institutions; 10 biggest deponents in relation to total deposits
- retail deposits: 10 biggest deponents from the retail sector in relation to total retail deposits and 100 biggest deponents from the retail sector in relation to total deposits.

The Market and Operational Risks and Risk Control Sector reports the concentration risk to Management Board, Credit Committee and the Asset and Liability Management Committee on a monthly/quarterly basis.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk (continued)

Concentration risk is also monitored on a sector basis, as shown in the following table where the numbers are presented on a gross basis:

GROSS EXPOSURE (HRK)	2021	%	2020	%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	-	0%	1,473	0.32%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	41,596	11.12%	52,673	11.01%
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	-	0%	358	0.07%
FINANCIAL AND INSURANCE ACTIVITIES	113,534	30.35%	60,069	12.56%
CONSTRUCTION	14,480	3.87%	36,603	7.65%
INFORMATION AND COMMUNICATION	-	0%	510	0.11%
PUBLIC ADMINISTRATION	3	0%	4	0.00%
OTHER SERVICE ACTIVITIES	6,335	1.69%	6,627	1.39%
AGRICULTURE, FORESTRY AND FISHING	2,504	0.67%	5,701	1.19%
REAL ESTATE ACTIVITIES	91,431	24.44%	123,612	25.85%
MANUFACTURING	63,816	17.06%	55,389	11.58%
TRANSPORTATION AND STORAGE	-	0%	30,170	6.31%
MINING AND QUARRYING	-	0%	-	0.00%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	6,211	1.66%	14,937	3.12%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	28,261	7.56%	55,665	11.64%
RETAIL	5,897	1.58%	34,413	7.20%
TOTAL	**374,068**	**100.00%**	**478,204**	**100.00%**

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The management of the Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty.

The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. Significant judgments relating to allowance for credit losses are particularly complex in the current uncertain environment. The COVID-19 pandemic has continued to evolve and the economic environment in which we operate could be subject to sustained volatility, which could continue to impact our financial results, as the duration of the COVID-19 pandemic, and the effectiveness of steps undertaken by governments and central banks remains uncertain. We continue to monitor and assess the impacts of the COVID-19 pandemic on our critical accounting judgments, estimates and assumptions.

Significant judgments made in determining the most appropriate methodology for estimating the fair value of foreclosed assets is also described below. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Classification of financial assets

Business Model Assessment

The Bank determines its business models based on the objective under which its portfolios of financial assets are managed. In determining its business models, the Bank considers the following:

- Management's intent and strategic objectives and the operation of the stated policies in practice;
- The primary risks that affect the performance of the business model and how these risks are managed;
- How the performance of the portfolio is evaluated and reported to management; and
- The frequency and significance of financial asset sales in prior periods, the reasons for such sales and the expected future sales activities.

Solely Payments of Principal and Interest Test (SPPI test)

In assessing whether contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that they would not be consistent with a basic lending arrangement. In making the assessment, the Bank considers the primary terms as follows and assess if the contractual cash flows of the instruments continue to meet the SPPI test:

- Performance-linked features;
- Terms that limit the Bank's claim to cash flows from specified assets (non-recourse terms);
- Prepayment and extension terms;
- Leverage features; and
- Features that modify elements of the time value of money.

Impairment of financial assets

Significant Increase in Credit Risk

The basic criteria for assessing significant increases in credit risk are days past due. The Bank considers that the credit risk has increased considerably after the initial recognition if any of the following occurs:

- at the reporting date the borrower is more than 30 days past due (based on materiality threshold), but is still within a period not exceeding 90 days and
- in the last 3 months the borrower was past due for more than 30 days (based on materiality threshold) but did not exceed 90 days past due.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of financial assets (continued)

Significant Increase in Credit Risk (continued)

In addition to days past due, the Bank uses qualitative indicators to determine a significant increase in credit risk such as a breach in contractual financial covenants, additional borrowing or third party liability, loss of license, concession and similar permits, which may negatively affect client business etc

Definition of default

The Bank considers that default status have occurred in the following conditions and refers to the reclassification of exposures to the minimum B1 risk category.

- the debtor has failed to fulfil its overdue obligation for more than 90 days (based on materiality threshold) under any significant credit obligation to the credit institution, its parent company or any of its subsidiaries

- the Bank considers it probable that the debtor will not fully meet its obligations to the Bank, its parent company or any of its subsidiaries without considering the possibility of collateral collection. In this regard, the Bank prescribes indicators for large portfolio that, in addition to the day of delay, indicate default status. These are indicators of a qualitative and quantitative nature closely related to the client's business.

Measurement of Expected Credit Loss

For exposures classified as Stage 1 and Stage 2, expected credit loss is calculated as the product of 12-month PD multiplied with LGD and EAD. Lifetime ECL is calculated as a product of the lifetime PD and LGD and the amount of exposure to credit risk at the reporting date. Exposure at default (EAD) is the gross book value of exposure at the reporting date

Assets that are classified in business model ATR (amortized cost), and refers to the corporate loan portfolio is divided into 4 homogeneous groups (pools) by product type, while the retail portfolio constitutes of one separate homogeneous group (pool). Probability of default (PD) provides probability that the borrower will not be able to meet its obligations. For the purpose of estimating 12M ECLs and LT ECLs for the ATR portfolio, models based on historical data are used, with conservative margin and adjustments for future macroeconomic developments.

The Bank calculates the probability of default over a specified period of time: one year PD12 - 12 months or lifetime PD - for the duration of the Life Time PD for each homogeneous group, based on the calculated historical default rate (DR) at the loan level. The calculation of the historical DR is calculated as the ratio of the sum of the placement parties that had the status of default and the sum of the total number of parties in the same period.

Due to the small amount of data and the oscillations between the maximum and minimum historically realized values in calculating PD, the calculated DR is increased by the margin of conservatism. The conservative margin is calculated as the standard deviation on the calculated DRs for each period included in the calculation of the DR average. The calculated standard deviation represents the percentage change on the calculated DR. The Bank does not currently have sufficient qualitative DR historical data for more than 5 years and the calculation of LFPD after 5 years is the result of extrapolation based on the calculated PD (from 12M to 5Y).

The Bank monitors macroeconomic developments primarily through the CNB's publications and the Macroeconomic publication forecasts and trends. The main macroeconomic indicators monitored are GDP, consumer price index and employment. For the purpose of adjusting the calculated PD to macroeconomic expectations, it is taken into account only the movement of GDP as the most significant macroeconomic variables. PD is assessed in the baseline and negative and optimistic scenarios whereby each scenario is given a certain weight of significance, based on expert assessment taking into account the likelihood of a recession, rating outlook credit rating agency and the time evolution of the probability weights of each scenarios.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of financial assets (continued)

Measurement of Expected Credit Loss (continued)

To determine the amount of PD (probability of default) for exposures to central governments, central banks and financial institutions, ie exposures that have the rating of an external institution for credit risk assessment, the Bank uses data available on the website Moody's Investor Service - Annual Default Study Alphanumeric Rating Migration Rates).

LGD (Loss Given Default) represents a loss due to default status. Accurate LGD estimates of "default" bank claims are important for determining the required loan loss reserves, further for calculating appropriate capital, and determining the fair price of loans.

For exposures classified in corporate homogeneous pools with an exposure which exceeds HRK 1 million, the Bank calculates an individual LGD using Scenario 1, Scenario 2 and Scenario 3. For exposures less than 1 million, the Bank applies a unique percentage of LGD amounting to 45% in accordance with the Basel Committee on Banking Supervision Discussion paper Regulatory treatment of accounting provisions. The Bank uses 3 scenarios when calculating individual LGDs, with methodology depending on the type of exposure; i) exposures granted on the basis of the Debtor / Debtors / Guarantors' cash flow, excluding contractual covenants specifying the minimum level of EBITDA or the maximum level of indebtedness for the duration of the contractual relationship; and ii) exposures representing project and real estate financing. Each scenario has a specific weighting assigned to it to determine the final LGD. The weighting assigned to each scenario is the result of the proportion of truly closed default exposures in each of the three scenarios (taking into account closed default exposures). For exposures related to syndicated loans with a mother company, the Bank uses the calculation of LGD from mother company.

For the purposes of calculating the LGD for a homogeneous population group, the Bank divided the portfolio into secured exposures and unsecured exposures. The Bank calculates LGDs at the individual level for all secured exposures, regardless of the level of exposure, taking into account only the recoverability from residential property. For unsecured exposures, the Bank uses a single LGD percentage of 50%.

Off-balance sheet items are classified into the appropriate risk categories on the basis of which the credit institution is exposed to credit risk due to the inability to repay outflows that may occur or that arise from the payment of assumed off-balance sheet liabilities. In assessing provisions for off-balance sheet items, the Bank applies the conversion factor 1 prescribed by the Decision on the classification of exposures to risk categories and the method of determining credit losses. For all performing off-balance sheet exposures the Bank recognise impairment losses at a rate of 0.80% of off-balance sheet credit risk exposure. For off-balance sheet exposures arising from overdrafts and unused loans, the Bank applies the calculated PD and LGD as well as the balance sheet portion of exposures.

Impairment allowance on assets individually assessed as credit-impaired is based on the management’s best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor’s financial situation and net realizable value of any underlying collateral. Each impaired asset is assessed separately, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

The Bank's management believes that the recognised expected credit losses and provisions are sufficient.

Valuation of foreclosed assets

The Bank occasionally acquires land and properties in settlement of certain loans and advances. Real estate is stated at the lower of the carrying value of the related loans and advances at the date of settlement and the net realisable value of such assets. When assessing the valuation of foreclosed assets, the Bank engages chartered surveyors, and subsequently reviews them and compares them with the carrying amount. Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Taxation

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

The Bank did not recognise deferred tax asset on tax losses carried forward due to history of recurring past losses.

Provisions for court cases

Management Board believes that court settlement provisions are sufficient at the reporting date. The Bank conducts an individual assessment of all legal disputes against the Bank. The initial assessment is carried out by the Department of Legal Affairs of the Bank, and the final decision on the risk group and the amount of the provision is made by the Management Board

At 31 December 2021 a total of 4 court proceedings against the Bank were conducted~~.~~

In the 2 civil cases there is a first-instance verdict issued in favor of the Bank.

In one court case, a first-instance verdict was passed against the Bank, so the case was classified in risk category B. All other disputes were classified in risk category A.

As explained in Note 17, the Bank provided HRK 207 thousand (2020: HRK 308 thousand), for principal and interest for liabilities from court cases, which management estimates to be sufficient. These amounts represent the best estimate of the Bank for losses in court disputes, although the actual loss on the Bank's court litigation may be significantly different.

Regulatory requirements

The CNB is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

Determination of control

In accordance with requirements of IFRS 10 Consolidated Financial Statements, the Bank regularly reassess whether they have control over significant activities of debtors in financial difficulties which are unable to regularly service its liabilities to the Bank. The Bank concluded in 2021 that there are no debtors which should be consolidated, which is consistent with the conclusion reached in 2020.

Internally developed software-determination of capitalisation criteria and estimated useful life

Intangible assets include internally developed software of total capitalized value of HRK 19.6 million. The Bank uses software in its business, and it is transferred to use according to the completion of individual modules. From 1 January 2020 all internally developed software was put into use since all modules are in production.

Software development costs are capitalized when the criteria in IAS 38 are met *Intangible assets*. Such assets are then amortized linearly over a useful life of 10 years. Management Board re-evaluates the remaining useful life of the software at each reporting date.

There is judgement involved in determining an appropriate framework to consider which expenditure requires capitalisation and which should be expensed. Note 12 of the financial statements provides details of the amounts capitalised.

Notes to the financial statements (continued)

6. AMOUNTS WITH THE CROATIAN NATIONAL BANK

[HRK'000]	31 December 2020	31 December 2021
Giro accounts with CNB	**105,107**	**125,028**
in HRK	105,336	125,289
ECL allowance	(229)	(261)
Obligatory reserve with CNB	**43,551**	**36,655**
in HRK	43,646	36,731
ECL allowance	(95)	(76)
TOTAL	**148,658**	**161,683**

Movements in loss allowance (Stage 1) of amounts with the CNB are presented below:

[HRK'000]	2020	2021
As at 1 January	**1,204**	**324**
Net (reversal)/charge of impairment losses	(880)	13
As at 31 December	**324**	**337**

Banks are obliged to calculate obligatory reserve in HRK and foreign exchange at the rate of 9% of HRK and foreign currency funds as of 31 December 2021 (31 December 2020: 9%).

The kuna part of the compulsory reserve thus calculated is increased by 75% (December 31, 2020: 75%) computed reserve requirements on foreign currencies. 70% of the kuna part of the reserve requirement is allocated to a special account with the CNB, while the rest is maintained by the average daily balance on the settlement account and on the account of funds for covering the negative balance on the current account in the National Clearing System.

The portion of accrued foreign currency reserves is reduced by 75% (31 December 2020: 75%), which is accounted for by the calculated portion in kuna while the remaining 25% is held maintains the average daily balance of liquid foreign currency receivables in accordance with the Decision on Foreign Exchange Reserve.

The obligatory reserve did not earn interest in 2021 (2020: nil).

Notes to the financial statements (continued)

7. CASH AND ACCOUNTS WITH OTHER BANKS

[HRK'000]	31 December 2020	31 December 2021
Cash in hand	**8,778**	**8,021**
in HRK	5,590	5,053
in foreign currency	3,188	2,968
Giro accounts with other banks	**113,237**	**81,303**
with foreign banks	49,408	11,479
ECL allowance	(247)	(84)
with domestic banks	64,197	70,039
ECL allowance	(121)	(131)
TOTAL	**122,015**	**89,324**

Movements in loss allowance (Stage 1) of Giro accounts with other banks are presented below:

[HRK'000]	2020	2021
As at 1 January	**1,094**	**368**
Net reversal of impairment loss	(726)	(153)
As at 31 December	**368**	**215**

8. PLACEMENTS WITH OTHER BANKS

[HRK'000]	31 December 2020	31 December 2021
Short-term	**477**	**476**
with domestic banks	477	476
ECL allowance	-	-
TOTAL	**477**	**476**

[HRK'000]	2020	2021
As at 1 January	**4**	**-**
Net reversal of impairment loss	(4)	-
As at 31 December	**-**	**-**

Notes to the financial statements (continued)

9. FINANCIAL ASSETS - SECURITIES

[HRK'000] SECURITIES AT FAIR VALUE THROUGH OCI	31 December 2020	31 December 2021
Financial assets at fair value through OCI	**257,833**	**173,813**
Bonds of the Croatian Ministry of Finance	211,690	129,081
Foreign government bonds	46,135	44,724
Foreign corporate bonds	8	8
Of which:		
- listed	257,833	173,813
- not listed	-	-
Accrued interest	**1,993**	**915**
not past due	1,997	916
ECL allowance	(4)	(1)
TOTAL	**259,826**	**174,729**

[HRK'000] SECURITIES AT FAIR VALUE THROUGH PL	31 December 2020	31 December 2021
Securities measured at FV through profit or loss – cash funds (quoted)	**31,313**	**-**
TOTAL	**31,313**	**-**

Notes to the financial statements (continued)

10. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers at amortised cost

[HRK'000]	31 December 2020	31 December 2021
Gross loans	**472,424**	**372,009**
retail	32,618	3,663
corporate	439,806	368,346
Interest receivables	**7,366**	**2,854**
ECL allowance	**(44,098)**	**(22,872)**
Gross loans	(42,439)	(22,150)
Interest receivables	(1,659)	(722)
Deferred income from fees	**(1,513)**	**(795)**
TOTAL	**434,179**	**351,196**

Notes to the financial statements (continued)

11. PROPERTY AND EQUIPMENT

2021 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2021	**21,383**	**7,583**	**7,865**	**1,365**	**78**	**38,274**
Additions	16,688	28	264	26	668	17,674
Write-offs and disposals	(22,631)	(94)	(3,208)	(364)	-	(26,297)
Transfer to use	-	-	668	-	(668)	-
At 31 December 2021	**15,440**	**7,517**	**5,589**	**1,027**	**78**	**29,651**
Accumulated depreciation						
At 1 January 2021	**14,696**	**7,161**	**7,400**	**880**	**-**	**30,137**
Charge for the year	2,550	255	164	144	-	3,113
Impairment	1,465	-	-	-	-	1,465
Write-offs and disposals	(16,390)	(94)	(3,137)	(349)	-	(19,970)
At 31 December 2021	**2,321**	**7,322**	**4,427**	**675**	**-**	**14,745**
Net carrying value	**13,119**	**195**	**1,162**	**352**	**78**	**14,906**

2020 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
Adjusted 1 January 2020	**26,356**	**7,738**	**8,709**	**1,411**	**65**	**44,279**
Additions	21	199	17	13	13	263
Write-offs and disposals	(4,994)	(354)	(861)	(59)	-	(6,268)
Transfer to use	-	-	-	-	-	-
At 31 December 2020	**21,383**	**7,583**	**7,865**	**1,365**	**78**	**38,274**
Accumulated depreciation						
At 1 January 2020	**12,669**	**7,112**	**8,080**	**795**	**-**	**28,656**
Charge for the year	4,540	402	156	157	-	5,255
Write-offs and disposals	(2,513)	(353)	(861)	(47)	-	(3,774)
At 31 December 2020	**14,696**	**7,161**	**7,375**	**905**	**-**	**30,137**
Net carrying value	**6,687**	**422**	**490**	**460**	**78**	**8,137**

As at 31 December, Property and equipment include Right-of-use assets in the amount of HRK 12,779 thousand (2020: HRK 711 thousand) relating to leased office premises and motor vehicles.

Notes to the financial statements (continued)

11.PROPERTY AND EQUIPMENT (continued)

Leases as lessee

The Bank leases a number of office premises. The leases typically run for a period of 1 to 10 years with the option to renew the lease after that time. The Bank also lease IT equipment. These leases are short term and/or leases of low value items. The Bank have elected not to recognize Right of use assets and Lease liabilities for these leases.

Information about leases for which the Bank is a Lessee is presented below:

Right-of-use

In HRK '000	Land and buildings	Motor vehicles	Total
Balance at 1 January 2020	**3,001**	**336**	**3,337**
Depreciation charge of the year	(2,561)	(99)	**(2,660)**
Additions	208	100	**308**
Disposals	(187)	(87)	**(274)**
Balance at 31 December 2020	**461**	**250**	**711**
Balance at 1 January 2021	**461**	**250**	**711**
Depreciation charge of the year	(1,228)	(125)	**(1,353)**
Additions	13,692	-	**13,692**
Disposals	(251)	-	**(251)**
Balance at 31 December 2021	**12,674**	**125**	**12,799**

Maturity analysis - Contractual undiscounted cash flows

In HRK '000	Land and buildings	Motor vehicles	Total
Balance at 31 December 2020	**499**	**247**	**746**
Less than one year	278	132	**410**
Between one and five years	204	79	**283**
Between two and three year	17	15	**32**
Between three and four year	-	15	**15**
Between four and five years	-	6	**6**
More than five years	-	-	**-**
Balance at 31 December 2021	**13,829**	**116**	**13,945**
Less than one year	2,043	80	**2,123**
Between one and five years	1,933	15	**1,948**
Between two and three year	1,278	15	**1,293**
Between three and four year	1,278	6	**1,284**
Between four and five years	1,278	-	**1,278**
More than five years	6,019	-	**6,019**

Amounts recognised in profit or loss

In HRK '000	Land and buildings	Motor vehicles	Total
Interest on lease liabilities	73	15	**88**
Expenses relating to short-term leases	-	-	**-**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	133	-	**133**
Total 2020	**206**	**15**	**221**
Interest on lease liabilities	126	10	**136**
Expenses relating to short-term leases	175	-	**175**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	66	-	**66**
Total 2021	**367**	**10**	**377**

Notes to the financial statements (continued)

12. INTANGIBLE ASSETS

2021 [HRK'000]	Internally generated software	Leasehold improvements	Licenses	Assets under construction	Total
Cost					
At 1 January 2021	**19,600**	**5,109**	**5,585**	**-**	**30,293**
Additions	-	183	-	-	183
Transfer into use	-	-	-	-	-
Write-offs	-	(5,109)	-	-	(5,109)
At 31 December 2021	**19,600**	**183**	**5,585**	-	**25,368**
Accumulated amortisation					
At 1 January 2021	**11,199**	**5,109**	**5,506**	**-**	**21,814**
Charge for the year	1,848	3	45	-	1,896
Write-offs	-	(5,109)	-	-	(5,109)
At 31 December 2021	**13,047**	**3**	**5,551**	**-**	**18,601**
Net carrying value	**6,553**	**180**	**34**	**-**	**6,767**

2020 [HRK'000]	Internally generated software	Leasehold improvements	Licenses	Assets under construction	Total
Cost					
At 1 January 2020	**19,256**	**5,109**	**5,596**	**343**	**30,304**
Additions	-	-	14	-	14
Transfer into use	343	-	-	(343)	-
Write-offs	-	-	(25)	-	(25)
At 31 December 2020	**19,599**	**5,109**	**5,585**	-	**30,293**
Accumulated amortisation					
At 1 January 2020	**9,349**	**5,109**	**5,428**	**-**	**19,886**
Charge for the year	1,849	-	103	-	1,952
Write-offs	-	-	(25)	-	(25)
At 31 December 2020	**11,198**	**5,109**	**5,506**	**-**	**21,813**
Net carrying value	**8,401**	**-**	**79**	**-**	**8,480**

Notes to the financial statements (continued)

13. OTHER ASSETS

[HRK'000] OTHER ASSETS	31 December 2020	31 December 2021
Other assets	**36,301**	**16,657**
Fees receivable	2,097	144
Prepaid expenses	186	178
Other receivables	9,201	9,405
Foreclosed assets	24,817	6,930
Impairment allowance	**(2,805)**	**(2,805)**
TOTAL	**33,496**	**13,852**

a) *Foreclosed assets*

Foreclosed assets refer to land and real estate acquired through pledge for non-performing loans to customers. They are initial measured at a lower of net carrying amount of loans and advances balance or its fair value at the date of repossession. Subsequently their value is adjusted if there is a decrease in underlying valuation of assets. Foreclosed assets are presented net of impairment allowance.

During the year, the Bank recognised additional impairment of HRK 4,061 thousands (2020: 5,560 thousands) for repossessed collateral. Effects are recognised in other provisions in Note 28.

b) *Movements in impairment allowance for other assets*

[HRK'000]	2020	2021
At 1 January	**2,824**	**2,805**
Increase/decrease	-	-
Write-offs	(19)	-
At 31 December	**2,805**	**2,805**

Notes to the financial statements (continued)

14. DEPOSITS FROM CUSTOMERS

[HRK'000]	31 December 2020	31 December 2021
Demand deposits	**264,742**	**198,589**
retail	46,349	60,659
in HRK	*28,961*	*15,643*
in foreign currency	*17,388*	*45,016*
corporate	218,393	137,930
in HRK	*91,179*	*45,913*
in foreign currency	*127,214*	*92,017*
Term deposits	**574,570**	**380,795**
retail	526,873	365,176
in HRK	*118,286*	*86,769*
in foreign currency	*408,587*	*278,407*
corporate	47,697	15,618
in HRK	*39,509*	*13,928*
in foreign currency	*8,188*	*1,690*
Accrued interest	**4,307**	**3,105**
TOTAL	**843,619**	**582,488**

15. DEPOSITS AND BORROWINGS FROM BANKS

[HRK'000]	31 December 2020	31 December 2021
Short-term	**548**	**46,469**
in HRK	*548*	1,366
in foreign currency	-	45,103
Long-term	**7,504**	**6,010**
in HRK	*372*	273
in foreign currency	*7,132*	5,737
Of which		
Borrowings	*6,651*	*51,113*
Deposits	*1,401*	*1,366*
Accrued interest	**2**	**6**
TOTAL	**8,054**	**52,485**

Borrowings consist of loans received from the Croatian Bank for Reconstruction and Development ("HBOR") in the amount of HRK 5.7 million (31 December 2020: HRK 6.6 million) and short term borrowings from related party.

In accordance with the overall agreement, borrowings from HBOR are used to fund loans to customers for eligible construction and development projects at preferential interest rates.

Notes to the financial statements (continued)

16. SUBORDINATED DEBT

[HRK'000]	31 December 2020	31 December 2021
Subordinated debt	**47,017**	**42,552**
in HRK	20,000	20,000
in foreign currency	27,017	22,552
Accrued interest	**87**	**-**
TOTAL	**47,104**	**42,552**

In July 2014 subordinated debt contract was signed, based on which J&T Banka, Prague, has made payment in the amount of EUR 3 million, or equivalent of HRK 22.9 million, at an interest rate of Euribor 12M + 7% per annum for a period of 10 year. In September 2020 interest rate decreased to 3.74% fixed.

During 2016, a new subordinated debt contract was signed, based on which J&T Bank Prague provided additional new funds of HRK 20 million at an interest rate of 8.8% for a period of seven years. In September 2020 interest rate decreased to 3.79% fixed.

The subordinated debt was also collected from retail customers in the total amount of EUR 584 thousand equivalent in HRK 4.4 million with a fixed interest rate of 5% and a term of 5 years. At the end of 2021 the Bank did not have subordinated debt related to retail customers.

Subordinated debt is included in the additional capital of the Bank and is amortised for regulatory purposes in their final five years before maturity.

Subordinated debt is subordinated to all other liabilities of the Bank.

17. PROVISIONS FOR LIABILITIES AND CHARGES

[HRK'000]	31 December 2020	31 December 2021
Provisions for legal disputes	308	208
Provisions for termination benefits and similar liabilities to employees	303	2,407
Provisions for contingent liabilities from credit risk	299	274
Provisions for contingent liabilities from other sources to individuals	150	150
TOTAL	**1,060**	**3,039**

The movement in provisions for liabilities and charges is presented below:

[HRK'000]	2020	2021
As at 1 January	**2,838**	**1,060**
Increase/decrease in the income statement		
- Increase in provisions for legal disputes (Note 28b)	105	5
- Provisions for termination benefits and similar liabilities to employees (Note 28b)	303	2,399
- Decrease in provisions for contingent liabilities (Note 28a)	(82)	(25)
- Increase in provisions from other sources to individuals (Note 27b)	39	-
Provisions used during the year (towards employees)	(1,840)	(295)
Provisions used during the year (for legal disputes)	(303)	(105)
At 31 December	**1,060**	**3,039**

Notes to the financial statements (continued)

18. OTHER LIABILITIES

[HRK'000]	31 December 2020	31 December 2021
Trade payables	693	599
Liabilities for salaries, deductions from salaries, taxes and benefits	1,275	1,217
Deferred income	252	311
Other liabilities	29,256	1,957
Liabilities for assets in use	715	12,815
TOTAL	**32,191**	**16,899**

Liabilities for assets in use increased as result of a new lease agreement for business offices in Zagreb.

Other liabilities as at 31 December 2020 include HRK 27,133 thousands on escrow account as insurance of obligations completion.

19. EQUITY

a. Share capital

[HRK'000]	31 December 2020	31 December 2021
Share capital	307,085	307,085
TOTAL	**307,085**	**307,085**

31 December 2021	Number of shares	Ownership share (%)
J&T BANKA A.S.	25,350,000	82.55
ALTERNATIVE UPRAVLJANJE D.O.O.	3,571,429	11.63
Other shareholders	1,787,111	5.82
TOTAL	**30,708,540**	**100.00**

31 December 2020	Number of shares	Ownership share (%)
J&T BANKA A.S.	25,350,000	82.55
ALTERNATIVE UPRAVLJANJE D.O.O.	3,571,429	11.63
Other shareholders	1,787,111	5.82
TOTAL	**30,708,540**	**100.00**

Ordinary shares carry voting rights at shareholders' meetings, subject to a minimum shareholding of one share. The Bank does not have preference shares. Issued share capital as at 31 December 2021 amounted to HRK 307 million (31 December 2020: HRK 307 million). The total number of authorised registered shares at 31 December 2021 was 30,708,540 (2020: 30,708,540) with no nominal value per share (2020: no nominal value per share).

Notes to the financial statements (continued)

19. EQUITY (continued)

b. Share premium

The premium on the issued shares was formed in previous periods as a result of the recapitalization of the Bank above the nominal value of the subscribed capital.

c. Other reserves

[HRK'000]	31 December 2020	31 December 2021
Reserves for treasury shares	2,557	2,557
Legal reserves	1,235	1,235
	3,792	**3,792**

Other reserves comprise of legal reserves and treasury shares reserves.

Legal reserve

The bank is obliged to form a legal reserve by allocating 5% of net profit for the year, until reserves reach 5% of the share capital. The legal reserve may be used to cover losses of previous years if the losses are not covered by current profit for the year or if no other reserves are available.

Treasury share reserve

The reserve for treasury shares is the result of the divestments based on the previous ownership of its own shares, and subsequently sold with the net gain and re-purchase during 2018 and 2017.

d. Treasury shares

When the Bank purchases the share capital of the Bank (treasury shares), the paid amount represents a deductible item from the capital and reserves belonging to the Bank's shareholders until such shares are rescinded, issued or sold.

On December 31, 2021, the Bank had a total of 590,338 (31 December 2020: 590,338) treasury shares worth HRK 2,202 thousand (31 December 2020: 2,202 thousand). During 2021 and 2020 there were no changes in Treasury shares.

During the bankruptcy proceedings for the debtor Validus d.d. the Commercial Court in Varaždin granted the Bank 513,477 shares registered as debtor’s bankruptcy property. Ownership rights of the property were transferred after its validation in 2018.

e. Fair value reserve

The Fair value reserve includes unrealized gains and losses from changes in fair value of debt securities at fair value through other comprehensive income.

f. Accumulated loss

The transferred loss includes accrued losses from previous years.

Notes to the financial statements (continued)

20. INTEREST INCOME CALCULATED BY USING THE EFFECTIVE INTEREST METHOD

[HRK'000]	2020	2021
Analysis by product	**24,976**	**27,567**
Loans and advances to customers	22,417	26,546
Placements with other banks	2	-
Debt securities	2,550	1,020
Other	7	1
Analysis by source	**24,976**	**27,567**
Retail	3,015	2,204
Corporate	18,973	20,262
State and public sector	1,481	1,122
Financial institutions	2	1,931
Other	1,505	2,048

21. INTEREST AND SIMILAR CHARGES

[HRK'000]	2020	2021
Analysis by product	**8,311**	**4,712**
Deposits from customers	5,019	2,676
Deposits and borrowings from banks	212	211
Subordinated debt	2,992	1,689
Interest expense on lease liabilities	88	136
Analysis by source	**8,311**	**4,712**
Retail	4,061	2,058
Corporate	559	489
State and public sector	10	1
Financial institutions	3,606	2,162
Other	75	2

22. FEE AND COMMISSION INCOME

[HRK'000]	2020	2021
Payment transactions	1,299	928
Letters of credit and guarantee fees	119	73
Early repayment fees	279	55
Brokerage fees	1,341	868
Other	2,211	1,577
TOTAL	**5,249**	**3,501**

Notes to the financial statements (continued)

23. FEE AND COMMISSION EXPENSE

[HRK'000]	2020	2021
Payment transactions	356	340
Credit cards	100	70
Other	321	347
TOTAL	777	757

24. NET GAINS AND LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

[HRK'000]	2020	2021
Realised net (loss)/gain from securities at fair value through OCI	**(84)**	**509**
Bonds	(84)	509
Realised net loss from financial assets at fair value through profit and loss	**-**	**(16)**
Cash funds	-	(16)
Unrealised net gain from financial assets at fair value through profit and loss	**152**	**-**
TOTAL	**68**	**493**

25. NET FOREIGN EXCHANGE GAINS AND FX TRADING INCOME

[HRK'000]	2020	2021
Net (loss)/gain from translation of monetary assets and liabilities	(91)	120
Net gains from trading with foreign currencies	2,492	2,225
TOTAL	**2,401**	**2,345**

Notes to the financial statements (continued)

26. OTHER INCOME

[000 HRK]	2020	2021
Rental of premises	1,366	1,091
Use of corporate cars	66	59
Collection of previously written off receivables	10	89
Net income from disposal of tangible and intangible assets	218	3,550
Release of accrued expenses from previous years	521	545
Other	553	415
TOTAL	**2,734**	**5,749**

27. OTHER ADMINISTRATIVE EXPENSES

a) Personnel expenses

[HRK'000]	2020	2021
Personnel expenses	**15,809**	**14,793**
- *Net salaries*	*8,832*	*8,479*
- *Contributions on and from salaries*	*4,611*	*4,188*
- *Taxes and surtaxes*	*1,846*	*1,399*
- *Other personnel expenses*	*520*	*727*
TOTAL	**15,809**	**14,793**

As at 31 December 2021, the Bank had 57 employees (31 December 2020: 67 employees).

b) Other administrative expenses

[HRK'000]	2020	2021
Services	6,752	5,924
Costs of deposit insurance	1,853	-
Material and other costs	838	905
Representation, advertising and sponsorship	276	118
Other administrative expenses	423	446
Car and other transportation expenses	100	120
Business trip	132	89
Other expenses	126	587
Taxes, contributions, fees	712	605
TOTAL	**11,212**	**8,794**

Services include intellectual services, including the audit cost. The audit fee in 2021 amounted to HRK 468 thousand, plus VAT (2020: HRK 467 thousand + VAT).

In accordance with the Deposit Insurance Act and the Methodology for calculating the degree of risk of a particular credit institution in Croatia, the deposit insurance premium is calculated as a multiplication of the premium base, the premium rate and the degree of risk. The Bank was not obligated to pay this insurance premium in 2021.

Other expenses in 2020 included the cost of provisions for contingent liabilities from other sources towards individuals in the amount of HRK 39 thousand (2021: HRK 0 thousand), as presented in note 17.

Notes to the financial statements (continued)

28. EXPECTED CREDIT LOSSES AND PROVISIONS

a) Recognised ECL during the period

[HRK'000]	2020	2021
Recognised ECL during the period		
Impairment of loans and advances to customers (Note 4.1.1)	4,466	(3,492)
Impairment of Accounts with the CNB and giro accounts and placements with other banks	(1,610)	(141)
Impairment of securities at fair value through OCI	(330)	(191)
Impairment of off-balance-sheet exposure to credit risk (Note 17)	(82)	(25)
TOTAL	**2,453**	**(3,852)**

b) Provisions

[HRK'000]	2020	2021
Other provisions		
Provisions for court cases (Note 17)	105	5
Provisions for termination benefits (Note 17)	303	2,399
Impairment of foreclosed assets (Note 13a)	5,560	4,061
TOTAL	**5,968**	**6,465**

29. INCOME TAX

a) Income tax expense recognised in the income statement

[HRK'000]	2020	2021
Current tax expense	-	-
Deferred tax expense	(283)	-
TOTAL INCOME TAX	**(283)**	**-**

b) Reconciliation of accounting profit and current income tax liability

[HRK'000]	2020	2021
(Loss)/Profit before tax	(16,592)	2,975
Income tax at a rate of 18%	(2,986)	535
Non-deductible expenses - tax at a rate of 18%	7,533	7,297
Non-taxable income - tax rate 18%	(7,032)	(7,209)
Tax profit/(loss) for the year at a rate of 18%	(2,485)	-
Tax losses carried forward for which no deferred tax asset is recognized	2,485	-
Utilisation of previously unrecognised tax losses	-	(623)
Write-off of deferred tax assets utilised in previous years	(283)	-
Effective tax rate	-	-
TOTAL	**(283)**	**-**

Notes to the financial statements (continued)

29. INCOME TAX (CONTINUED)

The Bank has written-off during 2020. deferred tax assets recognised in previous years within other assets (Note 13).

The availability of tax losses in future periods, subject to change by the Ministry of Finance, gross of tax rate, are as follows:

[HRK'000]	31 December 2021
No later than 1 year	20,722
No later than 2 year	-
No later than 3 year	-
No later than 4 year	13,807
No later than 5 year	-
Total gross tax losses carried forward not recognised as deferred tax assets	**34,529**

On the reporting date the Bank did not recognise any deferred tax asset in respect of tax losses carried forward on the grounds of uncertainty as to whether sufficient future taxable profits will be available to utilise those losses before their expiry.

c) Deferred tax liability on financial assets – amounts recognised in OCI

The Bank has recognized in its books a deferred tax liability for unrealized gains on securities measured in OCI in the amount of HRK 75 thousand in 2021 (2020: HRK 446 thousand).

[HRK '000] Items that are or may be reclassified to subsequently to profit or loss	2020	2021
Balance as at 1 January	**357**	**446**
Recognised deferred tax liability in other comprehensive income	89	(371)
Balance as at 31 December	**446**	**75**

Notes to the financial statements (continued)

30. BASIC AND DILUTED EARNINGS PER SHARE

For the purpose of calculating earnings per share, profit calculated as the profit for the period attributable to shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after deducting the number of ordinary treasury shares.

Since there is no effect of options, convertible bonds or similar effects, the weighted average number of ordinary shares used to calculate diluted earnings per share was the same as the one used to calculate basic earnings per share. The bank has no preference shares.

	2020	2021
Profit/(loss) for the year [HRK'000]	(16,592)	2,975
Weighted average number of shares	30,708,540	30,708,540
BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE (in HRK)	(0.54)	0.10

	2020	2021
Number of shares as at January 1	30,708,540	30,708,540
Weighted average number of shares as at December 31	30,708,540	30,708,540

Notes to the financial statements (continued)

31. CONCENTRATION OF ASSETS AND LIABILITIES

The table below represents the concentration of the Bank's assets and liabilities towards Republic of Croatia, including state-owned institutions and central bank (before ECL allowance):

[HRK'000]	Notes	31 December 2020	31 December 2021
Giro account with CNB	6	105,336	125,289
Obligatory reserve with CNB	6	43,646	36,731
Bonds and treasury bills issued by the Ministry of Finance		213,397	129,082
Borrowings from Croatian Bank for Reconstruction and Development		(7,504)	(6,010)
TOTAL		**354,875**	**285,092**

32. CASH AND CASH EQUIVALENTS

[HRK'000]	Notes	31 December 2020	31 December 2021
Cash and giro accounts with other banks	7	122,383	89,539
Giro account with CNB	6	105,336	125,289
TOTAL		**227,719**	**214,828**

33. CONTINGENCIES

[HRK'000]	31 December 2020	31 December 2021
Guarantees	**5,231**	**1,475**
in HRK	5,231	1,475
Revolving facility	**12,840**	**14,430**
in HRK	12,840	14,430
in foreign currency	-	-
TOTAL	**18,071**	**15,905**

As at 31 December 2021, the Bank recognized provisions on off-balance sheet risks arising from the issuance of guarantees, letters of credit and unused loan credits in the amount of HRK 274 thousand (2020: HRK 299 thousand) as presented in note 17.

Notes to the financial statements (continued)

34. RELATED PARTY TRANSACTIONS

The majority owner of the Bank is J&T Banka a.s. based in the Czech Republic and the ultimate parent is J&T Finance Group SE. The majority owner as at 31 December 2021 owned 82.55% of the Bank's shares (31 December 2020: 82.55%). With the recapitalization in 2015 and 2016 and the subordinated debt, the Bank had other banking transactions with its majority owner during the year which resulted with revenue and expenses for the year, as well as assets and liabilities at year-end.

The second largest shareholder as at 31 December 2021 is Alternative Upravljanje d.o.o. owning 11.63% of the shares. The remaining 5.82% of the shares were traded publicly until 3rd November 2017 and delisted from Zagreb Stock Exchange. The Bank considers its related parties are their key shareholders, their direct or indirect subsidiaries, members of the Supervisory Board and the Management Board and other management (together "key management"), close family members of key management, jointly controlled companies or companies under significant influence of the Key management members and members of their immediate families, in accordance with the definition given in the International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

As at 31 December 2021, the Bank has liabilities to key shareholders in respect of assets on current accounts and liabilities for received deposits.

Transactions related to key management in 2021 were related to the payment of regular salaries and received deposits. The Bank regulates the Proceeds through the Policy and Ordinance on measuring and rewarding the Bank's performance, organizational units and employees.

Key management includes members of the Management Board and directors responsible for areas of strategic importance. The number of key management members at 31 December 2021 is 14 (31 December 2020: 15).

Related party transactions for the year ended 31 December 2021 and 31 December 2020 were as follows:

	2020					2021				
	Assets	**Liability**	**Revenue**	**Expenses**	**Impairment**	**Assets**	**Liability**	**Revenue**	**Expenses**	**Impairment**
J&T Finance Group SE and affiliates										
Other income	-	-	2,715	-	(42)	-	-	1,597	-	(51)
Other receivables	-	-	-	-	-	-	-	-	-	-
Received deposits										
Giro accounts	-	1,378	-	-	-	10,428	1,255	-	-	-
Received loans	-	30,299	-	43	(242)	-	45,103	-	110	(83)
Subordinated debt	-	42,611	-	2,775	-	-	42,552	-	1,624	-
Other liabilities	-	-	-	-	-	-	-	-	68	-
TOTAL	**-**	**74,288**	**2,715**	**2,818**	**(284)**	**10,428**	**88,910**	**1,597**	**1,802**	**(134)**
Key management personnel										
Loans and advances to customers	1,143	-	39	-	(7)	-	-	-	-	-
Received deposits	-	3,560	-	9	-	-	3,689	-	-	-
Compensation to key management personnel		571	-	7,046	-	-	583	-	6,858	-
TOTAL	**1,143**	**4,131**	**39**	**7,055**	**(7)**	**-**	**4,272**	**-**	**6,858**	**-**

Notes to the financial statements (continued)

35. AVERAGE EFFECTIVE INTEREST RATES

Average interest rates calculated based on the weighted average for each category of interest-earning assets and interest-bearing liabilities, are presented below:

	2020	2021
Assets		
Amounts with the Croatian National Bank	-	-
Placements with banks	0.12%	0.03%
Investment securities	0.90%	0.50%
Loans and advances to customers	5.91%	6.18%
Liabilities		
Deposits from customers	0.54%	0.34%
Deposits and borrowings from banks	2.18%	1.15%
Subordinated debt	6.37%	3.84%

36. OPERATING LEASE COMMITMENTS

Following table presents future minimum lease payments for which the Bank did not recognise right-of-use assets and liabilities for leases in accordance with IFRS 16:

[000 HRK]	31.12.2020	31.12.2021
Up to 1 year	24	104
From 1 to 2 years	-	104
From 2 to 3 years	-	90
From 3 to 4 years	-	90
From 4 to 5 years	-	-
Over 5 years	-	517
	24	905

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value

Fair value represents the amount at which an asset could be exchanged, or a liability settled on normal market conditions, Financial assets through other comprehensive income are carried at fair value.

Determination of fair value and fair value hierarchy

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

- Level 1: These instruments include: liquid debt and equity securities traded on liquid markets and quoted investment in investment funds.
- Level 2: These instruments include: less-liquid debt and equity securities and derivatives valued by a model that uses input level 1 data.
- Level 3: Instruments where fair value cannot be determined directly by referring to available market information and for which different valuation techniques were used to calculate the value. Instruments classified in this category relate to a factor that is not available on the market, which has a significant impact on the fair value of the instrument itself.

There were no transfers between levels in 2021 and 2020. The tables below present the fair value of financial instruments that are measured at fair value for the Bank, allocated by the hierarchy of fair value levels with respect to the input data used in the valuation process.

2021 Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets at fair value through other comprehensive income				
Bonds of the Ministry of Finance	129,707	-	-	129,707
Foreign government bonds	45,014	-	-	45,014
Foreign corporate bonds	-	-	8	8
Financial assets at fair value through profit and loss account	-	-	-	-
Cash funds	-	-	-	-
Total financial assets at fair value	**174,721**	**-**	**8**	**174,729**

2020 Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets at fair value through other comprehensive income				
Bonds of the Ministry of Finance	213,394	-	-	213,394
Foreign government bonds	46,424	-	-	46,424
Foreign corporate bonds	-	-	8	8
Foreign treasury bills				-
Financial assets at fair value through profit and loss account				
Cash funds	-	31,313	-	31,313
Total financial assets at fair value	**259,818**	**31,313**	**8**	**291,139**

Level 2 comprise open-ended cash funds whose NAV is published on a daily basis.

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments measured at fair value (continued)

The table below shows the reconciliation of initial and final financial instruments at level 3 of the fair value hierarchy.

	Securities	Loans and advances
As at 1 January 2020	**-**	**-**
Addition	8	**-**
Sales/Maturity	**-**	**-**
As at 31 December 2020	**8**	**-**

	Securities	Loans and advances
As at 1 January 2021	8	-
Additions	-	-
Sales/Maturity	-	-
As at 31 December 2021	**8**	**-**

When discounting cash flows of assets or liabilities, the Bank uses weighted average monthly interest rates on loans and advances, ie deposits.

In assessing fair value, the Bank uses the following methods:

Cash and accounts with banks, amounts with the Croatian National Bank

The carrying values of accounts with banks and amounts with the central bank approximate to their fair values, given the short maturity of these assets.

Placements with other banks

The estimated fair value of placements with banks represents the discounted amount of future cash flow receipts. Due to their short-term character, their fair value approximates to their carrying value.

Loans and advances to customers carried at amortised cost

Fair value is based on a discounted cash flows using currently applicable interest rates on loans for similar terms or similar credit characteristics. Most of the Bank's loan portfolio is approved at a variable interest rate. Using the discounting method of cash flows and interest (assuming that the loan is repayable according to the agreed terms and taking into account the existing specific provisions), there is a difference between the fair value of the loan portfolio and the carrying amount, resulting from higher interest rates of the Bank than those on the market. The fair value of loans to non-performing customers is estimated on the basis of a discounted cash flow analysis or the estimated value of the underlying security instrument. Estimated fair value of loans and advances to customers represents the discounted amount of expected future cash receipts. Expected future cash inflows are discounted using the market interest rate.

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL ASSETS (continued)

Deposits from banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable as at the balance sheet date. The fair values of term deposits at variable interest rates approximate their carrying values as at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently applied to deposits of similar remaining maturities. According to the discounted cash flows, it is concluded that the fair value does not differ significantly from carrying value. Most of the customers' deposits with fixed interest rates become due within one year and consequently their fair value does not significantly differ from their carrying value.

Borrowings

Due to its short-term nature, the carrying value approximates the fair value.

Subordinated debt

Considering that there are no similar investments on the market, the management believes that the carrying value of subordinated debt approximates its fair value.

Financial instruments not valued at fair value:

	31 December 2020		31 December 2021	
	Carrying value	Fair value (Level 3)	Carrying value	Fair value (Level 3)
FINANCIAL ASSETS				
Accounts with the CNB and credit institutions	270,673	270,673	251,007	251,007
Placements with other banks	477	477	476	476
Loans and advances to customers	434,179	467,454	351,196	351,196
Total financial assets	**705,329**	**738,604**	**602,679**	**602,679**
Deposits from customers	843,619	843,619	582,488	582,488
Deposits and borrowings from banks	8,054	8,054	52,485	52,485
Subordinated debt	47,104	47,104	42,552	42,552
Total financial liabilities	**898,777**	**898,777**	**677,525**	**677,525**

Notes to the financial statements (continued)

38. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Reconciliation of movements of liabilities to cash flows arising from financing activities:

[HRK'000]	1 January 2021	Cash flow	Foreign exchange movement	Other changes	31 December 2021
Borrowings	8,054	44,426	5	-	52,485
Lease liabilities	715	(1,728)	-	13,828	12,815
Subordinated debt	47,104	(4,465)	(87)	-	42,552
TOTAL	**55,873**	**38,233**	**(82)**	**13,828**	**107,852**

[HRK'000]	1 January 2020	Cash flow	Foreign exchange movement	Other changes	31 December 2020
Borrowings	10,511	(2,446)	(11)	-	8,054
Lease liabilities	3,406	(2,779)	-	88	715
Subordinated debt	46,765	338	1	-	47,104
TOTAL	**60,682**	**(4,887)**	**(10)**	**88**	**55,873**

Notes to the financial statements (continued)

39. IMPACT OF COVID 19 ON THE BANK'S BUSINESS

While 2020 was a particularly challenging year for the Bank due to the COVID-19 pandemic, in 2021 the situation has come to a calm in respect of occurrence of credit risk increase, and no new issues arose as a consequence of the still ongoing pandemic.

During 2020, a total of 68 client requests for moratorium were entered in the business records of the Bank, out of which 50 requests refer to retail clients (whose total underlying amount is not considered to be material) and 18 to corporate clients. As of 31 December 2020 there were 13 retail clients and 6 corporate clients with active moratoriums, where the corporate exposure mainly related to clients active in tourism industry and retail industry.
All approved moratoriums on corporate clients expired during the first quarter of 2021, and regular repayments generally continued. The exception are the companies which were considered as NPLs already prior to the pandemic, and those who were not regular in payments prior to the pandemic continued to be in delay also after their payment reliefs expired.

Active monitoring of loans that were in the moratorium continues, and the client's business and all relevant information for credit risk assessment are reported on a monthly basis through monitoring lists (for legal entities, for retail quarterly) for a period of 12 months after the expiration of the moratorium.
The client's business is generally satisfactory, and further orderly execution of credit obligations is expected.
In retail portfolio, on 31 December 2021 there were no clients in the moratorium, and the repayment of loans after moratorium expiry has been regular.

Given the general new approach to the pandemic, despite the deteriorating epidemiological situation, extremely severe epidemiological measures are not expected, but the general recovery of the industry due to market disruptions (transport delays and shortages of raw materials, rising prices, labor shortages, etc.) is still not likely. On the other hand, moratoriums in the banking sector have expired, as have fiscal subsidies. Therefore, the management of this risk still refers to the continuous monitoring of clients' operations with prescribed restrictions as well as recovery after their withdrawal, with qualitative and quantitative periodic assessment of real and possible effects of the crisis, clients' readiness to respond to risk and adequacy of answers. The entire business of the client is taken into account, including the network of their suppliers, customers, guarantors / co-borrowers, peer groups etc.

However, the Management Board cannot exclude the possibility that a prolonged negative period of reduced economic activity, escalating and strengthening measures or the consequent negative effects of such measures on the economic environment, could have adverse effects on the Bank and its capital adequacy, financial position and operating results in the mid-term and long term. Management is closely monitoring the situation and will respond, as appropriate, with measures to mitigate the adverse effects of any events or different circumstances.

Additional information on the impact of the COVID-19 pandemic on the Bank's operations is contained in the Management Report, and Basis of preparation – Going concern.

40. EVENTS AFTER THE REPORTING DATE

The invasion of Ukraine by the Russian Federation, and the consequent adoption of international sanctions against the Russian Federation and the Republic of Belarus, represent a significant new event that has affected the Bank's risk management, as well as general corporate governance in all related areas. Following the invasion and the adoption of international sanctions, the Bank conducted a detailed analysis of potential increased exposure to credit risk, market risks, liquidity risk, IT/cyber risks and risks related to the prevention of money laundering and terrorism financing.

The analysis resulted with a finding that the Bank has not established a business relationship with any legal or natural person of Russian or Belarusian nationality, and therefore in its passive business has no connection with these countries. By imposing sanctions, the Bank has strictly prescribed restrictive measures in the area of performing payment operations and establishing a new business relationship with persons originating from the above mentioned countries, where the same cannot be done without the consent of responsible persons who report directly to the Management Board. From the aspect of liquidity risk, the Management Board assesses the level of liquidity as high. The movement of sources of funds, primarily deposits from the retail sector, is monitored on a daily basis, and no significant negative impact on liquidity or prescribed liquidity indicators is expected. In the area of IT and cyber risk, the Bank has implemented additional safeguards to reduce the risk of cyber attacks.

With regard to market risks, the changes in securities prices held by the Bank in the FVOCI portfolio, are being monitored on a daily basis, and the effect of a possible decrease in securities prices on the Bank's capital, ie capital adequacy, is calculated.

In terms of credit risk, a significant dependence of one client on the Ukrainian market has been identified as it generates the vast majority of its revenues in the Ukrainian market. At the same time, production complexes owned by the related company are located in Ukraine as well. Exposure to the client in question represents approximately 2.6% of the Bank's total assets as at 31 December 2021. In relation to the exposure in question, the Bank conducted stress testing in the area of capital adequacy, and it was determined that even in the event of a scenario of total loss on this exposure, the Tier 1 and total capital adequacy indicators remain significantly above the minimum levels prescribed by regulators. Therefore, the general assessment of the Management Board is that the event mentioned here does not lead to material effects, i.e. it does not raise a significant doubt about the Company's ability to continue as a going concern.

However, the political and economic environment remains in a state of considerable uncertainty and the Management Board cannot rule out the possibility that a prolonged period of Russian invasion of Ukraine could have an impact on reduced economic activity, rising inflation and deterioration of other macroeconomic indicators, whose effects could easily be transferred to the real sector, and subsequently cause a crisis of systemic proportions. Management is closely monitoring the situation and if necessary will undertake all available measures, in order to mitigate the potential adverse effects of any events or circumstances.

Additional reports for the Croatian National Bank

Supplementary financial statements prepared in accordance with the framework for reporting set out in the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/2020, 119/2021) are presented below:

Additional reports for the Croatian National Bank (continued)

Balance sheet as at 31 December 2021

	2020	2021
Assets		
Cash, deposits with the Croatian National Bank and other demand deposits	227,122	214,352
Cash in hand	8,778	8,021
Deposits with the Croatian National Bank	138,562	184,583
Other demand deposits	79,783	21,748
Financial assets held for trading	-	-
Derivatives	-	-
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Non-financial assets mandatorily measured at fair value through profit or loss	31,313	-
Equity instruments	31,313	-
Debt securities	-	-
Loans and advances	-	-
Financial assets designated at fair value through profit or loss	-	-
Debt securities	-	-
Loans and advances	-	-
Financial assets at fair value through other comprehensive income	259,826	174,729
Equity instruments	-	-
Debt securities	259,826	174,729
Loans and advances	-	-
Financial assets at amortized cost	480,329	388,496
Debt securities	-	-
Loans and advances	480,329	388,496
Derivatives – hedge accounting	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Investments in subsidiaries, joint ventures and associates	-	-
Tangible assets	8,871	15,532
Intangible assets	8,480	6,767
Tax assets	8	13
Other assets	6,549	6,739
Non-current assets and disposal groups classified as held for sale	24,083	6,305
Total assets	**1,046,581**	**812,933**

Additional reports for the Croatian National Bank (continued)

Balance sheet as at 31 December 2021 (continued)

	2020	2021
Liabilities		
Financial liabilities held for trading	-	-
Derivatives	-	-
Short positions	-	-
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities measured at amortized cost	899,492	690,340
Deposits	898,777	677,525
Debt securities issued	-	-
Other financial liabilities	715	12,815
Derivatives – Hedge accounting	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Provisions	1,060	3,039
Tax liabilities	481	244
Share capital repayable on demand	-	-
Other liabilities	31,476	4,085
Liabilities included in disposal groups classified as held for sale	-	-
Total liabilities	**932,509**	**697,708**
Equity		
Share capital	307,085	307,085
Share premium	21,435	21,435
Equity instruments issued other than capital	-	-
Other equity	-	-
Accumulated other comprehensive income	2,454	631
Retained earning	(201,900)	(218,492)
Revaluation reserves	-	-
Other reserves	3,792	3,792
(-) Treasury shares	(2,202)	(2,202)
Profit or loss attributable to owners of the parent	(16,592)	2,975
(-) Interim dividends	-	-
Minority interests [Non-controlling interests]	-	-
Total equity	**114,072**	**115,225**
Total liabilities and equity	**1,046,581**	**812,933**

Additional reports for Croatian National Bank (continued)

Income statement for the period ended 31 December 2021

	2020	2021
Interest income	25,024	27,735
(Interest expense)	(8,333)	(4,876)
(Return on equity that is returned on demand)	-	-
Dividend income	-	-
Fee and commission income	5,309	3,374
(Fee and commission expense)	(789)	(757)
Gains or (–) losses on termination of recognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net	(84)	509
Gains or (–) losses on financial assets and financial liabilities held for trading, net	2,492	2,226
Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net	152	(16)
Gains or (–) losses on financial assets and financial liabilities at fair value through profit or loss, net	-	-
Gains or (–) losses from hedge accounting, net	-	-
Foreign exchange differences (gains or losses), net	(62)	150
Gains or losses on discounting nonfinancial assets, net	219	28
Other operating income	2,515	2,204
(Other operating expenses)	(822)	(1,020)
Total operating income, net	**25,621**	**29,557**
(Administrative expenses)	(24,228)	(22,425)
(Payment commitments to resolution funds and deposit guarantee schemes)	(1,861)	(8)
(Depreciation)	(7,316)	(5,120)
Gains or losses due to changes, net	-	-
(Provisions or cancellation of provisions)	(324)	(2,379)
Impairment or reversal of financial assets that are not measured at fair value through profit or loss	(2,639)	3,920
Impairment or reversal of investments in subsidiaries, joint ventures and associates	-	-
Creation or release of impairment of nonfinancial assets	(5,560)	(4,061)
Negative goodwill recognized in profit or loss	-	-
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for by share method	-	-
Profit or loss from Non-Current Assets and Allocation Assets classified as held for sale that are not qualifying as non-going business	(2)	3,491
Profit or loss before operating taxes that will continue	**(16,309)**	**2,975**
Tax expense or income related to operating profit or loss that will continue	(283)	-
Profit or loss before operating taxes that will continue	**(16,592)**	**2,975**
Profit or loss before operating taxes that will not continue	-	-
Profit or loss before operating taxes that will not continue	-	-
Tax expense or income related to business that will not continue	-	-
Profit or loss for the year	**(16,592)**	**2,975**
It belongs to minority interest (non-controlling interest)	-	-
It belongs to the owners of the parent company	**-**	**-**

Additional reports for Croatian National Bank (continued)

Statement of Comprehensive Income for the Year Ended 31 December 2021

	2020	2021
Net profit/(loss) for the period	**(16,592)**	**2,975**
Other comprehensive income	**75**	**(1,823)**
Items which will not be subsequently reclassified in profit or loss	-	-
Tangible assets	-	-
Intangible assets	-	-
Actuarial gains or losses on pension plans under the sponsorship of the employer	-	-
Non-current assets and disposal groups intended for sale	-	-
Share of other recognized income and expenses from entities accounted by equity method	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Income tax relating to items that will not be reclassified	-	-
Items that are or may be reclassified to profit or loss	**75**	**(1,823)**
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Cash flow hedges [effective portion]	-	-
Hedging instruments [not designated elements]	-	-
Debt instruments at fair value through other comprehensive income	164	(2,060)
Non-current assets and disposal groups held for sale	-	-
Share of other recognized income and expense of Investments in subsidiaries, joint ventures and associates	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	(89)	237
Total comprehensive income for the year	**16,517**	**1,152**
Attributable to minority interest (non-controlling interest)	-	-
Attributable to owners of the parent company	-	-

Additional reports for Croatian National Bank (continued)

Statement of cash flows for year ended 31 December 2021

	2020	2021
Business activities according to the indirect method		
Profit/(loss) before tax	(16,592)	2,975
Adjustments:		
Impairment losses	2,560	3,979
Depreciation and amortization	12,876	9,182
Unrealized (gains)/losses on securities at fair value through profit or loss	-	-
(Gains)/losses from sale of tangible assets	-	-
Other (gains)/losses	62	(150)
Changes in assets and liabilities due to operating activities		
Deposits with the Croatian National Bank	20,255	6,914
Deposits with banking institutions and loans to financial institutions	(1,609)	(123)
Loans and advances to other clients	(45,927)	75,134
Securities and other financial instruments at FVOCI	36,065	82,298
Securities and other financial instruments held for trading	-	-
Securities and other financial instruments at fair value through profit or loss which are not actively traded	3,762	31,393
Securities and other financial instruments mandatorily at FVTPL	-	-
Securities and other financial instruments at amortized cost	-	-
Other operating assets	(5,086)	8,137
Deposits from financial institutions	(3,930)	(1,476)
Other clients demand deposits	58,166	(36,172)
Other clients savings deposits	(111,740)	(28,935)
Other clients term deposits	61,978	(193,691)
Derivative financial liabilities and other liabilities held for trading	-	-
Other operating liabilities	(4,623)	(15,837)
Interest received from operating activities [indirect method]	-	-
Dividends received from operating activities [indirect method]	-	-
Interest paid from operating activities [indirect method]	-	-
(Income tax paid)	-	-
Net inflow/(outflow) of cash from operating activities	**6,217**	**(56,372)**

Additional reports for Croatian National Bank (continued)

Statement of cash flows for year ended 31 December 2021 (continued)

	2020	2021
Investing activities		
Cash receipts from/(payments to acquire) tangible and intangible assets	(11,002)	1,919
Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	-	-
Cash receipts from sales of/(cash payments to acquire) securities and other financial instruments from investing activities	-	-
Dividends received from investing activities	-	-
Other receipts from/(payments for) investments	-	-
Net cash flow from investing activities	**(11,002)**	**1,919**
Financing activities		
Net increase/(decrease) in received loans from financing activities	-	45,099
Net increase/(decrease) in issued debt securities	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	(4,410)
Proceeds from issue of share capital	-	-
(Dividends paid)	-	-
Other proceeds/(payments) from financing activities	-	-
Net cash flow from financing activities	**-**	**40,689**
Net increase/(decrease) in cash and cash equivalents	**(4,785)**	**(13,764)**
Cash and cash equivalents at the beginning of the year	**231,595**	**227,719**
Effect of foreign exchange differences on cash and cash equivalents	909	873
Cash and cash equivalents at the end of the year	**227,719**	**214,828**

Additional reports for Croatian National Bank (continued)

Statement of changes in equity for year ended 31 December 2021

	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	Treasury shares	Profit/loss attributable to owners of the parent company	Dividends for the financial year	Total
Initial balance (before restatement)	**307,085**	**21,433**	**2,454**	**(201,900)**	**3,794**	**(2,202)**	**(16,592)**	**-**	**114,072**
The effect of corrections of errors	-	-	-	-	-	-	-	-	-
The effect of changes in accounting policies	-	-	-	-	-	-	-	-	-
Initial state (current period)	**307,085**	**21,433**	**2,454**	**(201,900)**	**3,794**	**(2,202)**	**(16,592)**	**-**	**114,072**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-
Execution or expiration of other issued equity instruments	-	-	-	-	-	-	-	-	-
Converting debt to ownership instruments	-	-	-	-	-	-	-	-	-
Equity reduction	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity instruments to liabilities	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity instruments	-	-	-	-	-	-	-	-	-
Transfers between components of proprietary instruments	-	-	-	(16,592)	-	-	16,592	-	-
Increase or decrease in equity instruments as a result of business combinations	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-
Other enhancement or reduction of equity instruments	-	-	-	-	-	-	-		-
Total comprehensive income for the current year	-	-	1,823	-	-	-	2,975	-	**1,152**
Final state (current period)	**307,085**	**21,433**	**631**	**(218,492)**	**3,794**	**(2,202)**	**2,975**	**-**	**115,225**

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB

Reconciliation of balance sheet as at 31 December 2021

in '000 HRK

TOTAL ASSETS - Statutory financial statements		Funds with the CNB	Cash and due from banks	Placements with other banks	Financial assets securities	Loans and advances to customers	Property and equipment	Intangible assets	Other assets	ACCOUNT 296096	TOTAL ASSETS	Ordinal number
ASSETS Specific financial statements 31.12.2021												
1.	Cash, cash receivables from central banks and other demand deposits											
1.1.	Cash		8,021								**8,021**	**1**
1.2.	Cash receivables from central banks	125,028	59,555								**184,583**	**2**
1.3.	Other deposits		21,748								**21,748**	**3**
2	Financial assets held for trading											
2.1.	Derivatives											
2.2.	Equity instruments											
2.3.	Securities											
2.4.	Loans and advances											
3.	Non-trading financial assets that are measured at fair value through profit or loss											
3.1.	Equity instruments											
3.2.	Securities											
3.3.	Loans and advances											
4.	Financial assets at fair value through profit or loss											
4.2.	Securities											
4.3.	Loans and advances											
5.	Financial assets at fair value through other comprehensive income											
5.1.	Equity instruments											
5.1.	Securities				174,729						**174,729**	**4**
5.2.	Loans and advances											
6.	Financial assets at amortized cost											
6.1.	Securities											
6.2.	Loans and advances	36,655		476		351,196			169		**388,496**	**5**
7.	Derivatives - hedge accounting											
8.	Changes in the fair value of hedged items to hedge the portfolio of interest rate risk											
9.	Investments in subsidiaries, joint ventures and associates											
10.	Tangible assets						14,906		626		**15,532**	**6**
11.	Intangible assets							6,767			**6,767**	**7**
12.	Tax assets								13		**13**	**8**
13.	Other assets								6,739		**6,739**	**9**
14.	Non-current assets and disposal groups classified as held for sale								6,305		**6,305**	**10**
TOTAL ASSETS		**161,683**	**89,324**	**476**	**174,729**	**351,196**	**14,906**	**6,767**	**13,852**		**812,933**	

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of balance sheet as at 31 December 2021

in '000 HRK

TOTAL LIABILITIES - Statutory financial statements		Client deposits	Borrowings	Hybrid instruments	Provision for liabilities and charges	Other liabilities	Deferred tax liability	Accumulated other comprehensive income	ACCOUNT 296096	**TOTAL LIABILITIES Statutory**	**TOTAL LIABILITIES Specific**	Ordinal number
LIABILITIES Specific financial statements 31.12.2021												
1.	Financial liabilities held for trading											
1.1.	Derivatives											
1.2.	Short positions											
1.3.	Deposits											
1.4.	Debt securities											
1.5.	Other financial liabilities											
2.	Financial liabilities at fair value through profit or loss											
2.1.	Deposits	582,488	52,485	42,552							**677,525**	**1**
2.2.	Debt securities											
2.3.	Other financial liabilities					12,814					**12,814**	**2**
3.	Financial liabilities measured at amortized cost											
3.1.	Deposits											
3.2.	Debt securities											
3.3.	Other financial liabilities											
4.	Derivatives - hedge accounting											
5.	Changes in the fair value of hedged items to protect the portfolio against interest rate risk											
6.	Provisions				3,039						**3,039**	**3**
7.	Tax liabilities						75	169			**244**	**4**
8.	Capital that is returned on demand											
9.	Other liabilities					4,086					**4,086**	**5**
10.	Liabilities included in the disposal groups classified as held for sale											
TOTAL LIABILITIES		**582,488**	**52,485**	**42,552**	**3,039**	**16,900**	**75**	**169**		**697,708**	**697,708**	

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of balance sheet as at 31 December 2021

in '000 HRK

	TOTAL CAPITAL AND RESERVES - Statutory financial statements	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Accumulated losses	TOTAL CAPITAL AND RESERVES Statutory	TOTAL CAPITAL AND RESERVES Specific	Ordinal number
CAPITAL AND RESERVES Specific financial statements 31.12.2021										
1.	Share capital	307,085							**307,085**	1
2.	Share premium		21,433						**21,433**	2
3.	Issued equity instruments other than equity									
4.	Other proprietary instruments									
5.	Accumulated other comprehensive income					631			**631**	3
6.	Retained earnings						(218,492)		**(218,492)**	4
7.	Revaluation reserves									
8.	Other reserves		1		3,793				**3,795**	5
9.	Treasury shares			(2,202)					**(2,202)**	6
10.	Profit or loss belonging to the owners of the parent company						2,975		**2,975**	7
11.	Dividends for the financial year									
12.	Minority Shares (Non-controlling Shares)									
13.	Accumulated other comprehensive income - capital					169				3
	TOTAL EQUITY	**307,085**	**21,434**	**(2,202)**	**3,793**	**802**	**(215,517)**	**115,395**	**115,224**	

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments to the balance sheet of the Specific Financial Statements and the Core Financial Statements

ASSETS

1. The amount of cash (HRK 8,021 thousand) from the cash item in the Cashier's Special Financial Statements has been reclassified to item cash and accounts with Banks of the Basic Financial Statements.

2. The amount of deposits with the CNB (HRK 184,583 thousand) from the item cash receivables from central banks of the Special Financial Statements was reclassified to the item cash and deposits with the CNB Basic Financial Statements (HRK 125,028 thousand) and item money and accounts with Banks reports (HRK 59,555 thousand).

3. The amount of other demand deposits (HRK 21,748 thousand) from item other demand deposits of the Special Financial Statements was reclassified to cash and bank accounts with the Basic Financial Statements.

4. The amount of non-tradable financial assets that are necessarily measured at FV through profit or loss (HRK 174,729 thousand) from the item financial instruments of the Special Financial Statements has been reclassified to financial assets - securities of the Basic Financial Statements.

5. The amount of financial assets at amortized cost (HRK 388,496 thousand) from the item loans and advances of the Special Financial Statements was reclassified to cash and deposits with the CNB (HRK 36,655 thousand), to placements with other banks (HRK 476 thousand), loans and advances to customers (HRK 351,196 thousand) and other assets (HRK 2,122 thousand) of the Basic Financial Statements.

6. The amount of tangible assets (HRK 15,532 thousand) from the item tangible assets of the Special Financial Statements was reclassified to property and equipment of the Basic Financial Statements (HRK 14,906 thousand), and to other assets (HRK 626 thousand).

7. The amount of intangible assets (HRK 6,767 thousand) from the item intangible assets of the Special Financial Statements is reclassified to the item intangible assets of the Basic Financial Statements.

8. Items 09,10,11 - tax assets, other assets and fixed assets classified as held for sale (HRK 13,057 thousand) Special Financial Statements are reclassified to other assets in the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments to the balance sheet of the Specific Financial Statements and the Core Financial Statements (continued)

LIABILITIES

1. The amount of the financial liability at fair value through profit or loss (HRK 677,525 thousand) from the item deposits of the Special Financial Statements was reclassified to received loans (HRK 52,485 thousand), to customer deposits (HRK 582,488) and to the hybrid instrument item (42,552 thousand) of the Basic Financial Statements.

2. The amount (HRK 12,814 thousand) under other financial liabilities of the Special Financial Statements has been reclassified to other liabilities of the Basic Financial Statements.

3. The amount (HRK 3,039 thousand) under the provision of the Special Financial Statements has been reclassified to the provision for liabilities and expenses of the Basic Financial Statements.

4. The amount of (HRK 244 thousand) related to Deferred tax liability was reclassified from the item Tax liabilities of the Special financial statements to the item Deferred tax liability of the Basic financial statements in the amount of (HRK 75 thousand). The difference of HRK 169 thousand (35 thousand from 2020 and 134 thousand from 2021) refers to the calculation of the tax liability of the debt side of account 906 for the Basic Financial Statements.

5. The amount of other liabilities (HRK 4,086 thousand) was reclassified from the item other liabilities of the Special Financial Statements to the item other liabilities of the Basic Financial Statements.

EQUITY

1. The share capital (HRK 307,085 thousand) from the item share capital of the Special Financial Statements is reclassified to the item share capital of the Basic Financial Statements.

2. Share premium (HRK 21,443 thousand) of the Special Financial Statements is reclassified to premium on the issued shares of the Basic Financial Statements.

3. The item accumulated other comprehensive income (HRK 631 thousand) of the Special Financial Statements has been reclassified to the fair value reserve item of the Basic Financial Statements in the amount of (HRK 631 thousand). The difference of HRK 169 thousand reclassified to Accumulated losses of Basic Financial Statements relates to the calculation of account 906 debt side.

4. The amount of retained earnings-loss (HRK -218,492 thousand) from the item retained earnings of the Special Financial Statements is reclassified to the item accumulated losses of the Basic Financial Statements.
5. The amount of reserves (HRK 3,795 thousand) from the item other reserves of the Special Financial Statements has been reclassified to other reserves in the Basic Financial Statements.
6. Treasury stock item (HRK -2,202 thousand) of the Special Financial Statements has been reclassified to Treasury stock item of the Basic Financial Statements.

7. The amount of profit or loss (HRK 2,795 thousand) from the profit or loss item belonging to the owners of the parent company is reclassified to the item accumulated losses-gains of the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of the Income statement as at 31 December 2021

in '000 HRK

	PROFIT AND LOSS ACCOUNT- Statutory financial statements I-XII 2021	Interest income and similar income	Interest expense and similar expense	Fee and commission income	Fee and commission expense	Realized gains net of losses on securities	Gains less losses on foreign exchange gains	Other income	Employees costs	Depreciation and impairment of goodwill	Other operating expenses	Impairment costs and provisions	Income tax	PROFIT (LOSS)		Ordinal number
1.	Interest income	27,735													**27,735**	**1**
2.	Interest expense		(4,876)												**(4,876)**	**2**
3.	Return on equity that is returned on demand															
4.	Dividend income															
5.	Fee and commission income			3,374											**3,374**	**3**
6.	Fee and commission expense				(757)										**(757)**	**4**
7.	Gains or losses on termination of recognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net					509									**509**	**5**
8.	Gains or losses on financial assets and financial liabilities held for trading, net						2,226								**2,226**	**6**
9.	Gains or losses on financial assets not traded measured at fair value through profit or loss, net					(16)									**(16)**	**5**
10.	Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net															
11.	Gains or losses from hedge accounting, net															
12.	Foreign exchange differences (gains or losses), net	(168)	164				119					35			**150**	**7**
13.	Gains or losses on discontinuing nonfinancial assets, net							54			(26)				**28**	**8**
14.	Other operating income							2,204							**2,204**	**9**
15.	Other operating expenses										(1,021)				**(1,021)**	**10**
16.	**TOTAL OPERATING INCOME, NET**															
17.	Administrative expenses								(14,793)		(7,631)				**(22,424)**	**11**
18.	Contribution in cash to resolution committees										(8)				**(8)**	**12**
19.	Depreciation									(5,012)	(109)				**(5,121)**	**13**
20.	Gains or losses due to changes, net															
21.	Provisions or cancellation of provisions											(2,378)			**(2,378)**	**14**
22.	Impairment or impairment of an impairment of a financial asset that is not measured at fair value through profit or loss			127								3,793			**3,920**	**15**
23.	Impairment or impairment of investments in subsidiaries, joint ventures and associates															
24.	Impairment of or impairment of impairment of non-financial assets											(4,061)			**(4,061)**	**16**
25.	Negative goodwill recognized in profit or loss															
26.	Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for by share method															
27.	Profit or Loss from Non-Current Assets and Allocation Assets classified as held for sale that are not qualifying as non-going business															
28.	**PROFIT OR LOSS BEFORE TAX FROM OPERATIONS TO BE CONTINUED**															
29.	Tax expense or income related to operating profit or loss that will continue															
30.	**PROFIT OR LOSS AFTER TAX FROM OPERATIONS TO BE CONTINUED**															
31.	**Profit or loss after taxation from operations that will not continue**							3,491							**3,491**	**17**
31.1.	Profit or loss before operating tax that will not continue															
31.2.	Tax expense or income related to business that will not continue															
32.	**PROFIT OR LOSS FOR THE YEAR**	**27,567**	**(4,712)**	**3,501**	**(757)**	**493**	**2,345**	**5,749**	**(14,793)**	**(5,012)**	**(8,794)**	**(2,611)**	**0**	**2,975**	**2,975**	
33.	It belongs to minority interest (non-controlling shares)															
34.	It belongs to the owners of the parent company															

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments of the Income statement for CNB reporting and the Statutory Financial Statements (continued)

1. The amount of interest income (HRK 27,735 thousand) from the item interest income, and the item foreign exchange difference (profit or loss) net (HRK -168 thousand) is reclassified to interest income (HRK 27,567 thousand) of the Basic Financial Statements.

2. Interest expense (HRK -4,876 thousand) from the item interest expense and the item foreign exchange difference (profit or loss) net (HRK -164 thousand) has been reclassified to interest expense (HRK -4,712 thousand) of the Basic Financial Statements.

3. The amount of fee income (HRK 3,374 thousand) from the item fee and commission income, and item impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (HRK 127 thousand) is reclassified in item fee income (HRK 3,501 thousand) of the Basic Financial Statements.

4. Fee and commission expense (HRK -757 thousand) in the Special Financial Statements has been reclassified to fee and commission expense (HRK -757 thousands) in the Basic Financial Statements.

5. Gains or losses on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss, net (HRK 509 thousand), and gains or losses on non-trading financial assets measured at fair value through profit or loss, net (HRK -16 thousand) of the Special Financial Statements, has been reclassified to realized gains less losses on securities (HRK 493 thousand) of the Basic Financial Statements..

6. Gains or losses on financial assets and financial liabilities held for trading, net (HRK 2,226 thousand), and exchange rate differences (profit or loss) net (HRK 119 thousand) of the Special Financial Statements have been reclassified to Foreign exchange gains and losses difference (HRK 2,345 thousand) of the Basic Financial Statements.

7. Foreign exchange differences (profit or loss) net (HRK 150 thousand) Special Financial Statements, have been reclassified to Interest income (HRK -168 thousand), interest expense (HRK 164 thousand), gains less foreign exchange losses (HRK 119 thousand) and impairment losses and provisions (HRK 35 thousand) of the Basic Financial Statements.

8. Gains or losses on derecognition of non-financial assets, net in the amount of (HRK 28 thousand) of the Special Financial Statements, were reclassified to other income in the amount of (HRK 54 thousand) and to other operating expenses in the amount of (HRK -26 thousand) Basic Financial Statements..
9. Other operating income (HRK 2,204 thousand) Special Financial Statements has been reclassified to other revenues of the Basic Financial Statements.

10. Other operating expenses (HRK -1,021 thousand) Special Financial Statements has been reclassified to other operating expenses of the Basic Financial Statements.

11. Administrative expenses (HRK -22,424 thousand) Special Financial Statements has been reclassified to employee expenses (HRK -14,793 thousand) and to other operating expenses (HRK -7,631 thousand) of the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments of the Income statement for CNB reporting and the Statutory Financial Statements

12. Cash contributions to the resolution committee (HRK -8 thousand) Special Financial Statements have been reclassified to other operating expenses of the Basic Financial Statements.

13. Depreciation (HRK -5,121 thousand) Special Financial Statements has been reclassified to Depreciation and impairment of goodwill (HRK -5,012 thousand) and to other operating expenses (HRK -109 thousand) of the Basic Financial Statements.

14. Provisions or cancellations of provision (-2,378 thousand HRK) Special Financial Statements has been reclassified to Impairment costs and provisions of the Basic Financial Statements.

15. Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (HRK -3,920 thousand) Special Financial Statements has been reclassified to Impairment costs and provisions (HRK -3,793 thousand) and to Fee income and commission (HRK 127 thousand) of the Basic Financial Statements.

16. Impairment or reversal of impairment of non-financial assets (HRK 4,061 thousand) of the Special Financial Statements has been reclassified to impairment and provisions.

17. Gains or losses on fixed assets and disposal groups classified as intended for sale that do not qualify as operations that will not continue in the amount of (HRK 3,491 thousand) of the Special Financial Statements has been reclassified to other operating income of the Basic Financial Statements..

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of comprehensive income statement as at 31 December 2021

in '000 HRK

REPORT ON OTHER COMPREHENSIVE INCOME		Profit (loss) for the year	Unrealized gains on securities assets, net of realization	Deferred tax on financial assets of securities	Deferred tax on financial assets securities	Total comprehensive profits	Ordinal number
1.	**Profit or loss**	2,975				**2,975**	
2.	**Other comprehensive income**						
2.1.	**Items that will not be reclassified to profit or loss**						
2.1.1.	Tangible assets						
2.1.2.	Intangible assets						
2.1.3.	Actuarial gains or losses on pension plans under the sponsorship of the employer						
2.1.4.	Non-current assets and disposal groups intended for sale						
2.1.5.	Share of other recognized income and expense of entities that are accounted for by the equity method						
2.1.6.	Changes in fair value of equity instruments measured at fair value through other comprehensive income						
2.1.7.	Gains or losses on hedge accounting of equity instruments measured at fair value through other comprehensive income, net						
2.1.8.	Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)						
2.1.9.	Changes in fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)						
2.1.10.	Changes in the fair value of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk						
2.1.11.	Income tax relating to items that will not be reclassified						
2.2.	**Items that can be reclassified to profit or loss**						
2.2.1.	Hedges of a Net Investment in a Foreign Operation (effective share)						
2.2.2.	Conversion of foreign currencies						
2.2.3.	Protect Cash Flow (Effective Share)						
2.2.4.	Hedging instruments (elements which are not specified)						
2.2.5.	Debt instruments at fair value through other comprehensive income		(2,060)			**(2,060)**	1
2.2.6.	Non-current assets and disposal groups intended for sale						
2.2.7.	Share of other recognized income and expenses from investments in subsidiaries, joint ventures and associates						
2.2.8.	Income taxes relating to items that may be reclassified profit and loss			237	134	**237**	2
3.	**Total comprehensive income**	2,975	(2,060)	237	134	**1,152**	
4.	It belongs to minority interest (non-controlling interest)						
5.	It belongs to the owners of the parent company				1,286		

1. Amount of (HRK -2.060 thousand) from the item debt instruments at fair value through other comprehensive income of the Special Financial Statements is reclassified to the item unrealized gains on securities assets, net of the realization of the Basic Financial Statements..

2. Amount (HRK 237 thousand) from the item Profit tax relating to items that can be reclassified to profit or loss of the Special Financial Statements, is reclassified to the item deferred tax on financial assets of the securities of the Basic Financial Statements. The difference of HRK 134 thousand in the Special Financial Statements was calculated deferred tax liability on profit per securities without loss adjustment, which affected the increase in liabilities and the decrease in other comprehensive income.

Reconciliation of the Statement of cash flows in statutory financial statements with the supplementary schedules for CNB

The differences in the cash flow statement published in the annual report and that defined by the CNB's prescribed structure and content are caused by the different methodology of these two reports. Cash flow elaboration on items of operational, investment and financial activities is also different due to different starting points in cash flow presentation.

Announcements pursuant to Article 164 of the Credit Institutions Act

1) J&T banka d.d. is registered for the following activities:

- Accepting deposits or other repayable funds from people and approving credits from those funds, for own account,
- accepting deposits and other repayable funds,
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring),
- financial lease,
- issuing guarantees and other warrants,
- trading for own account or for the client's account:
    - money market instruments,
    - transferable securities,
    - foreign currencies, including exchange transactions,
    - financial futures and options,
    - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
    - trading for own account.

As at 31 December 2021, the Bank operates through 2 branches (Varaždin, Zagreb).

The Bank mainly carries out its business activities in the territory of the Republic of Croatia while only a small part of its business is carried out with non-residents.

1) The total revenue of the Bank for 2021 amounted to HRK 43,663 thousand.
2) The Bank employs 57 full-time employees.
3) Net profit in 2021 amounted to HRK 2,975 thousand and the Bank did not have any obligation to pay tax on profit.
4) The bank have not received public subsidies during 2021.